Catlin Insurance Company Ltd.

Consolidated Financial Statements

For the Years Ended 31 December 2007 and 2006

(Expressed in US Dollars)

Catlin Insurance Company Ltd.
Consolidated Balance Sheets
As at 31 December 2007 and 2006
(US dollars in thousands, except share amounts)

	2007	2006
Assets		
Investments		
Fixed maturities, available-for-sale, at fair value		
(amortised cost 2007: $2,928,717; 2006: $2,685,960)	$2,948,950	$2,669,437
Short-term investments, at fair value	47,605	27,565
Investments in funds, at fair value	946,418	326,208
Investment in associate	2,537	2,617
Total investments	3,945,510	3,025,827
Cash and cash equivalents	2,052,792	1,968,945
Securities lending collateral	44,662	130,854
Accrued investment income	37,274	32,136
Premiums and other receivables	1,153,372	985,018
Reinsurance recoverable	1,119,847	1,237,531
Deposit with reinsurer	5,040	1,321
Reinsurers' share of unearned premiums	224,235	104,731
Deferred policy acquisition costs	247,171	144,063
Value of in-force business acquired	-	118,384
Intangible assets and goodwill	884,428	868,026
Derivatives, at fair value	9,035	46,037
Due from parent	-	111,188
Other assets	86,796	124,736
Total assets	$9,810,162	$8,898,797
Liabilities, Minority Interest and Stockholder Equity		
Liabilities:		
Reserves for losses and loss expenses	$4,237,525	$4,005,133
Unearned premiums	1,506,899	1,290,379
Reinsurance payable	444,294	192,958
Accounts payable and other liabilities	219,034	317,089
Subordinated debt	100,825	99,936
Derivatives, at fair value	9,099	619
Securities lending payable	44,662	130,854
Deferred taxes	224,842	151,537
Due to parent	261,245	1,696,449
Total liabilities	$7,048,425	$7,884,954
Minority interest	757	749

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

Catlin Insurance Company Ltd.
Consolidated Balance Sheets
As at 31 December 2007 and 2006
(US dollars in thousands, except share amounts)

	2007	2006
Stockholder equity:		
Ordinary shares of par value $1 each		
Authorised 1,040,000; issued and outstanding 1,000,100;		
(2006: 1,000,100)	$1,000	$1,000
Preferred shares, par value $0.01		
Authorised, issued and outstanding: 600,000; (2006: nil)	589,785	-
Additional paid-in capital	1,499,915	799,915
Accumulated other comprehensive income/(loss)	38,820	(26,090)
Retained earnings	631,460	238,269
Total stockholder equity	2,760,980	1,013,094
Total liabilities, minority interest and stockholder equity	$9,810,162	$8,898,797

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

Catlin Insurance Company Ltd.
Consolidated Statements of Operations
For the years ended 31 December 2007 and 2006
(US dollars in thousands, except share amounts)

	2007	2006
Revenues		
Gross premiums written	$3,360,626	$1,605,019
Reinsurance premiums ceded	(787,108)	(194,896)
Net premiums written	2,573,518	1,410,123
Change in net unearned premiums	(83,984)	(84,262)
Net premiums earned	2,489,534	1,325,861
Net investment income	295,229	96,989
Net realised losses on investments	(78,970)	(17,041)
Net realised losses on derivatives	(30,088)	(1,321)
Net realised (losses)/gains on foreign currency exchange	(5,607)	39,645
Other income	29,358	3,528
Total revenues	2,699,456	1,447,661
Expenses		
Losses and loss expenses	1,154,670	681,549
Policy acquisition costs	624,195	341,531
Administrative expenses	276,833	116,093
Other expenses	72,839	26,513
Total expenses	2,128,537	1,165,686
Income before minority interest and income tax expense	570,919	281,975
Minority interest	8	(22)
Income tax expense	(59,790)	(16,606)
Net income	511,137	265,347
Preferred share dividend	(21,868)	-
Net income available to common stockholder	$489,269	$265,347

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

Catlin Insurance Company Ltd.
Consolidated Statements of Changes in Stockholder Equity
For the years ended 31 December 2007 and 2006
(US dollars in thousands, except share amounts)

	Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss)/income	Total stockholders equity
Balance 1 January 2006	$1,000	$-	$733,964	$248,854	$(21,399)	$962,419
Comprehensive income:						
Net income	-	-	-	265,347	-	265,347
Other comprehensive loss	-	-	-	-	(4,691)	(4,691)
Total comprehensive income/(loss)	-	-	-	265,347	(4,691)	260,656
Dividend on re-organisation	-	-	-	(275,932)	-	(275,932)
Capital contribution from parent	-	-	65,951	-	-	65,951
Balance 31 December 2006	$1,000	$-	$799,915	$238,269	$(26,090)	$1,013,094
Comprehensive income:						
Net income	-	-	-	489,269	-	489,269
Other comprehensive income	-	-	-	-	64,910	64,910
Total comprehensive income	-	-	-	489,269	64,910	554,179
Issuance of preferred shares	-	589,785	-	-	-	589,785
Dividends declared	-	-	-	(96,078)	-	(96,078)
Capital contribution from parent	-	-	700,000	-	-	700,000
Balance 31 December 2007	$1,000	$589,785	$1,499,915	$631,460	$38,820	$2,760,980

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

Catlin Insurance Company Ltd.
Consolidated Statements of Cash Flows
For the years ended 31 December 2007 and 2006
(US dollars in thousands, except share amounts)

	2007	2006
Cash flows provided by operating activities		
Net income	$489,269	$265,347
Adjustments to reconcile net income to net cash provided by operations:		
Amortisation and depreciation	18,733	11,379
Amortisation of premiums/(discounts) of fixed maturities	(3,450)	(6,185)
Net realised losses on investments	78,970	17,040
Changes in operating assets and liabilities, net of effect of business combination		
Reserves for losses and loss expenses	174,357	(258,017)
Unearned premiums	198,928	52,587
Premiums and other receivables	417,375	(4,596)
Deferred policy acquisition costs	(101,131)	(1,639)
Value of in-force business acquired	120,705	-
Reinsurance payable	601,236	(175,687)
Reinsurance recoverable	(456,369)	292,176
Reinsurers' share of unearned premiums	(118,384)	4,016
Deposit with reinsurer	(230,253)	21,823
Deferred gain	-	(8,078)
Accounts payable and other liabilities	(352,428)	43,679
Investment in funds	(581,034)	(89,925)
Deferred taxes	136,545	-
Other	27,882	(36,837)
Net cash flows provided by operating activities	420,951	127,083
Cash flows provided by investing activities		
Purchases of fixed maturities	(2,227,686)	(2,138,862)
Purchases of short-term investments	(226,090)	(97,088)
Proceeds from sales of fixed maturities	2,593,971	2,104,900
Proceeds from maturities of fixed maturities	139,295	17,397
Proceeds from sales and maturities of short-term investments	191,106	102,219
Cash flows arising from investment in associate	1,064	1,452
Purchases of subsidiaries, net of cash acquired	-	1,250,986
Purchase of intangible assets	68	(223,257)
Purchases of property and equipment	(21,247)	(16,484)
Proceeds from sales of property and equipment	1,808	340
Investment of securities lending collateral	96,991	(130,854)
Net cash flows provided by investing activities	549,280	870,749

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

Catlin Insurance Company Ltd.
Consolidated Statements of Cash Flows
For the years ended 31 December 2007 and 2006
(US dollars in thousands, except share amounts)

	2007	2006
Cash flows (used in)/provided by financing activities		
Additional paid in capital	$-	$65,951
Dividends paid on common shares	(96,078)	-
Net proceeds from issue of preferred shares	589,785	-
Dividends paid on preferred shares	(21,868)	-
Securities lending collateral received	(96,991)	130,854
Due (to)/from parent	(1,311,350)	109,274
Net cash flows (used in)/provided by financing activities	(936,502)	306,079
Net increase in cash and cash equivalents	33,729	1,303,911
Cash and cash equivalents – beginning of year	1,968,945	607,191
Effect of exchange rate changes	50,118	57,843
Cash and cash equivalents – end of year	$2,052,792	$1,968,945
Supplemental cash flow information		
Taxes paid	$20,140	$16,135
Interest paid	$8,031	-
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	$1,608,199	$1,021,142
Cash equivalents	$444,593	$947,803

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

1 Nature of operations

Catlin Insurance Company Ltd. (the 'Company') is a Bermuda Class 4 licensed insurer, incorporated 18 December 2000. It is a wholly owned subsidiary of Catlin Group Limited ("the Group" or "parent"), a Bermuda licensed holding company. The Company, together with its subsidiaries ('CICL Group'), writes insurance and reinsurance of worldwide property and casualty risks. On 14 December 2007 and 30 March 2006 the Group contributed $700,000, and $65,951 respectively to the Company in paid-in capital.

The CICL Group consists of four underwriting platforms:

- Catlin Syndicate (Syndicate 2003) which operates at Lloyd's of London;
- Catlin Bermuda (the Company);
- Catlin UK (Catlin Insurance Company (UK) Limited); and
- Catlin US, which is the trading name for the Company's various subsidiaries in the United States. Catlin US includes Catlin Inc. as well as two insurance companies: Catlin Insurance Company Inc. and Catlin Specialty Insurance Company Inc.

At 31 December 2007, CICL Group, through intermediate companies, also had established operations in Canada, Australia, Singapore, Malaysia, China, Germany, Belgium, Guernsey, France, Spain, Austria, Switzerland, Italy and Brazil.

In December 2006, the Group declared unconditional its offer to acquire all of the issued and to be issued share capital of Wellington Underwriting plc ('Wellington'). This acquisition is described in Note 3. Following this acquisition, during 2007 the Group undertook an internal restructuring to rationalise its corporate structure, align capital with risk and improve efficiency. Upon completion of the restructuring, the CICL Group included all group companies except the ultimate parent, Group. As part of the restructuring the following transactions took place in 2007:

- Catlin (North American) Holdings Ltd ("CNAH"), a subsidiary of the Company, acquired all of the share capital of Catlin Holdings (UK) Ltd ("CHUKL") from the Company's parent for consideration of $275,932. The core business of CHUKL and its subsidiaries is in the Lloyd's Market.
- CNAH acquired all of the share capital of Wellington's subsidiaries from Wellington for total consideration of $700,000. The business of Wellington's subsidiaries is primarily in the Lloyd's Market, and also includes insurance operations in the United States.

In May 2006, CICL Group, through its wholly owned subsidiary Catlin Inc., acquired 100 per cent of the outstanding common shares of American Indemnity Company. That company, renamed Catlin Insurance Company Inc., is part of Catlin US and the CICL Group.

During 2005, a new subsidiary of the Company, CNAH, was capitalised. As part of this capitalisation, the Group contributed Catlin Inc. to the CICL Group in the amount of $6,861.

Following these transactions, CICL Group writes a broad range of products, including property, casualty, energy, marine and aerospace insurance products and property, catastrophe and per-risk excess, non-proportional treaty, aviation, marine, casualty and motor reinsurance business. Business is written from many countries, although business from the United States predominates.

2 Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ('US GAAP'). The preparation of financial statements in conformity with US GAAP requires management to make estimates when recording transactions resulting from business operations based on information currently available. The most significant items on the CICL Group's balance sheet that involve accounting estimates and actuarial determinations are reserves for losses and loss expenses, deferred policy acquisition costs, reinsurance recoverables, valuation of investments, intangible assets and goodwill and derivatives. The

accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, commissions and other policy acquisition costs. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates and actual results may differ from the estimates used in preparing the consolidated financial statements, management believes the amounts recorded are reasonable.

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

The 2006 comparative financial information has been re-presented as if the re-organisation had occurred on 1 January 2006 to provide a comparative basis of presentation.

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

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

Net investment income includes interest income together with amortisation of market premiums and discounts and is net of investment management and custody fees. Interest income is recognised when earned. Premiums and discounts are amortised or accreted over the lives of the related fixed maturities as an adjustment to yield using the effective-interest method and is recorded in current period income. For mortgage-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognised prospectively.

Realised gains or losses are included in net income and are derived using the specific-identification method.

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

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

Short-term investments
Short-term investments are carried at amortised cost, which approximates fair value, and are composed of securities due to mature between 90 days and one year from the date of purchase.

Investments in funds
The CICL Group's investments in funds are considered to be trading and are carried at fair value. The fair value is based on either the quoted market price of these funds provided by independent pricing services or the net asset value of the individual funds. The change in fair value of the individual funds is recorded in net income as net investment income.

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

Derivatives
In accordance with Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities ('FAS 133'), the CICL Group recognises derivative financial instruments as either assets or liabilities measured at fair value. Gains and losses resulting from changes in fair value are included in net income.

The fair values of the catastrophe swap agreements described in Note 9 are determined by management using internal models based on the valuation of the underlying notes issued by the counterparty, which are publicly quoted. The determination of fair value takes into account changes in the market for catastrophe reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date. The fair value of options to purchase shares in Aspen Insurance Holdings Ltd ('Aspen') was estimated using the Black-Scholes valuation model. The fair values of all other derivative financial instruments are obtained from independent valuation sources.

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

Securities lending
Certain entities within the CICL Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the loaned securities remain under the CICL Group's control and therefore remain on the CICL Group's balance sheet. Collateral in the form of cash, government securities and letters of credit is required and is monitored and maintained by the lending agent. The CICL Group receives interest income on the invested collateral, which is included in net investment income in the Consolidated Statements of Operations.

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

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

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

Reinstatement premiums are recognised and fully earned as they fall due.

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

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

Value of in-force business acquired
Upon the Group's acquisition of Wellington, an asset representing the present value of estimated future profits associated with unearned premiums was recorded. The value of in-force insurance contracts is amortised over the period in which the related premiums are earned and was fully amortised as at 31 December 2007.

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

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

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

Reinstatement premiums are recorded and fully expensed as they fall due. Return premiums due from reinsurers are included in premiums and other receivables in the Consolidated Balance Sheets.

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

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

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

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

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

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

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

Intangible assets are valued at their fair value at the time of acquisition. The CICL Group's intangible assets relate to the purchase of syndicate capacity, the distribution network and admitted as well as surplus lines licenses.

Purchased syndicate capacity and admitted licenses are considered to have an indefinite life and as such are subject to annual impairment testing. Surplus lines authorisations are considered to have a finite life and are amortised over their estimated useful lives of five years. Distribution channels are amortised over their useful lives of five years.

The CICL Group evaluates the recoverability of its intangible assets whenever changes in circumstances indicate that an intangible asset may not be recoverable. If it is determined that an impairment exists, the excess of the unamortised balance over the fair value of the intangible asset is recognised as a change in net income.

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

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

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

Foreign currency translation and transactions
Foreign currency translation
The presentation currency of the CICL Group has been determined to be US dollars. The financial statements of each of the Group's entities are initially measured using the entity's functional currency, which is determined based on its operating environment and underlying cash flows. For entities with a functional currency other than US dollars, foreign currency assets and liabilities are translated into US dollars using period end rates of exchange, while statements of operations are translated at average rates of exchange for the period. The resulting translation differences are recorded as a separate component of accumulated other comprehensive income/(loss) within stockholders' equity.

Foreign currency transactions
Monetary assets and liabilities denominated in currencies other than the functional currency are revalued at period end rates of exchange, with the resulting gains and losses included in income. Revenues and expenses denominated in foreign currencies are translated at average rates of exchange for the period.

Income taxes
Income taxes have been provided for those operations that are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the CICL Group's assets and liabilities. Such temporary differences are primarily due to the recognition of untaxed profits, and intangible assets arising from the acquisition of Wellington in December 2006. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all or some portion of the benefits related to deferred tax assets will not be realised.

Stock compensation
The CICL Group accounts for stock-based compensation arrangements under the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), Accounting for Stock-Based Compensation ('FAS 123R').

The fair value of options is calculated at the date of grant based on the Black-Scholes Option Pricing Model. The corresponding compensation charge is recognised on a straight-line basis over the requisite service period.

The fair value of non-vested shares is calculated on the grant date based on the share price and the exchange rate in effect on that date and is recognised on a straight-line basis over the vesting period. This calculation is updated on a regular basis to reflect revised expectations and/or actual experience.

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

As a result of the acquisition of Wellington in December 2006, the CICL Group also sponsors a defined benefit pension scheme which was closed to new members in 1993. The recorded asset related to the plan was set equal to the value of plan assets in excess of the defined benefit obligation at the date of the business combination.

Risks and uncertainties
In addition to the risks and uncertainties associated with unpaid losses and loss expenses described above and in Note 7, cash balances, investment securities and reinsurance recoveries are exposed to

various risks, such as interest rate, market, foreign exchange and credit risks. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements. The cash balances and investment portfolio are managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single institution issue and issuers. Similar diversification provisions are in place governing the CICL Group's reinsurance programme. Management believes that there are no significant concentrations of credit risk associated with its investments and its reinsurance programme.

New accounting pronouncements

In February 2006, the Financial Accounting Standards Board ('FASB') issued Financial Accounting Standard 155, ('FAS 155'), Accounting for Certain Financial Instruments: an amendment of FASB Statements No. 133 and 140. This Statement resolves issues addressed in FAS 133 Implementation Issue No. D1, 'Application of Statement 133 to Beneficial Interests in Securitized Financial Assets'. FAS 155 is effective for reporting periods beginning after 15 September 2006, although early adoption is permitted. The adoption of FAS 155 has not had a material effect on the CICL Group's financial position or results of operations.

In June 2006, the issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, ('FIN 48'). FIN 48 provides guidance on financial statement recognition, measurement and disclosure of uncertain tax positions. FIN 48 is effective for fiscal years beginning after 15 December 2006. The CICL Group adopted the provisions of FIN 48 effective 1 January 2007. There were no changes to the CICL Group's financial position as a result of adopting FIN 48. The CICL Group's tax uncertainties are described in Note 12.

In September 2006, the FASB issued Financial Accounting Standard 157, Fair Value Measurements ('FAS 157'). FAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. FAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. FAS 157 is effective for reporting periods beginning after 15 November 2007, although early adoption is permitted. The adoption of FAS 157 in 2008 is not expected to have a material effect on the CICL Group's financial position or results of operations.

In September 2006, the FASB issued Financial Accounting Standard No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) ('FAS 158'). This statement requires recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in the balance sheet and changes in that funded status to be recognised in comprehensive income in the year in which the changes occur. FAS 158 also requires measurement of the funded status of a plan as at the balance sheet date. The recognition provisions of FAS 158 are effective for reporting periods ending after 15 December 2006, while the measurement date provisions are effective for reporting periods ending after 15 December 2008. The adoption of the measurement date provisions of FAS 158 in 2009 will not have a material effect on the CICL Group's financial position or results of operations.

In February 2007, the FASB issued Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ('FAS 159'). FAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. FAS 159 is effective for fiscal years beginning after 15 November 2007. Companies are not allowed to adopt FAS 159 on a retrospective basis unless they chose early adoption. The CICL Group will adopt FAS 159 effective 1 January 2008 and has elected to apply the fair value option to its available-for-sale investment portfolio. On adoption of FAS 159, net unrealised gains of $14,424, after allowing for tax effects, will be reclassified from accumulated other comprehensive income to retained earnings as at 1 January 2008.

In December 2007, the FASB issued Financial Accounting Standard 141(R), Business Combinations – a replacement of FASB Statement No.141 ('FAS 141(R)'), which changes the principles and requirements for how the acquirer of a business recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognising and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively for fiscal years beginning after 15 December 2008. The CICL Group will adopt FAS 141(R) in 2009. The adoption of FAS 141(R) is not expected to have a material effect on the CICL Group's financial position or results of operations.

In December 2007, the FASB issued FAS 160, Non-Controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 ('FAS 160'). This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosures to be on the face of the consolidated statement of operations, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. This statement is effective prospectively, except for certain retrospective disclosure requirements, for reporting periods beginning after 15 December 2008. The CICL Group will adopt FAS 160 in 2009 and is currently evaluating the impact of adoption. The adoption of FAS 160 is not expected to have a material effect on the CICL Group's financial position or results of operations.

3 Business combination

On 18 December 2006, the Group declared unconditional its offer to acquire Wellington, which was announced on 30 October 2006 (the 'Offer'). The business combination was deemed effective 31 December 2006 for accounting purposes; accordingly the net assets acquired are valued as at that date and the operating results of Wellington are included in the CICL Group's consolidated financial statements in periods following 31 December 2006.

Prior to the acquisition, Wellington managed and underwrote a diversified book of insurance and reinsurance business at Lloyd's and in the US. Following the acquisition, CICL Group is a major international specialty insurance and reinsurance business with well established underwriting platforms in the United Kingdom and Bermuda and a significantly enhanced underwriting and distribution platform in the United States.

Under the terms of the Offer, Wellington shareholders received 0.17 shares of the Group's common stock and 35 pence in cash for each Wellington share surrendered. Total consideration paid by the Group was $1,186,300, including $347,431 of cash and 86,094,294 shares of the Group's common stock valued at $812,427. The value of the common shares issued was determined based on the average market price of the Group's common shares for the period from 20 October to 2 November 2006, inclusive, which commenced two business days before the announcement that the Group and Wellington were in discussions regarding a possible combination and ended two business days after the terms of the Offer were announced.

As at 31 December 2006, acceptances representing 93 per cent of Wellington's issued share capital had been received, and acceptances representing 88 per cent of Wellington's issued share capital had been settled in the form of $300,286 of cash and 74,414,657 shares. The remaining 12 per cent was accrued in the Group's 31 December 2006 balance sheet as a liability for the cash consideration and within additional paid-in capital for the equity consideration, and was acquired in early 2007.

Changes to the purchase price allocation in 2007 have resulted in an increase in goodwill from $68,970 to $74,512. This increase is primarily due to additional acquisition expenses of $1,366 and an increase of $2,664 in the liability for restructuring costs as described below.

The following table summarises the estimated fair values of the assets acquired and liabilities assumed by the Group at the date of acquisition.

Investments and cash	$2,288,886
Premiums and other receivables	339,366
Reinsurance recoverable	804,787
Value of in-force business acquired	118,384
Intangible assets	472,556
Other assets	119,676
Total assets acquired	4,143,655
Reserves for losses and loss expenses	2,026,268
Unearned premiums	491,756
Reinsurance payable	65,306
Subordinated debt	99,936
Deferred tax	133,539
Other liabilities	222,552
Total liabilities assumed	3,039,357
Net assets acquired	$1,104,298

The table below summarises the calculation of goodwill arising on the acquisition.

Cash consideration (settled by Catlin Group Limited)	$347,431
Catlin share consideration (settled by Catlin Group Limited)	812,427
Acquisition expenses	26,442
Total consideration	$1,186,300
Net assets acquired	1,104,298
Treasury shares acquired	7,490
Goodwill	$74,512

Of the $472,556 of acquired intangible assets, $461,580 was assigned to purchased syndicate capacity, which is not subject to amortisation as it is deemed to have an indefinite life. The remaining acquired intangible assets consist of $4,900 of distribution network with an average life of five years and $6,076 of licenses with an average life of five years. The values assigned to goodwill and intangible assets with finite and indefinite lives were determined based on independent third-party valuations.

The value of in-force business acquired of $118,384 represents the estimated present value of future profits associated with the unearned premium acquired and replaces the deferred policy acquisition costs that were carried on Wellington's historical balance sheet. Its value was determined based on an independent third-party valuation.

Of the goodwill arising on the acquisition of Wellington, $64,289 was allocated to Catlin Syndicate, and the remaining $10,223 was allocated to Catlin US.

The unaudited pro forma financial information presented below assumes the acquisition occurred as at 1 January 2006. The following unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the actual results of operations that would have occurred had the acquisition been consummated at the beginning of the period presented.

	2006
Gross premiums written	$2,721,800
Total revenues	2,484,072
Net income	389,018

Restructuring costs
In December 2006, the Group approved and committed to plans to reduce staff headcount as part of the integration of the two businesses. A liability of $5,565 representing the cost associated with terminating the employment of certain former Wellington employees was included in the initial allocation of the purchase price of the Wellington acquisition as at 31 December 2006. During 2007, the actual amount of this liability was determined to be $9,429. The increase of $3,864 has been treated as an adjustment to the purchase price allocation and has resulted in an increase in goodwill of $2,664 after allowing for deferred tax effects. All termination costs were paid in 2007 and charged against this liability. Costs associated with terminating the employment of certain legacy CICL Group employees as part of the integration process were recorded as part of administrative expenses.

4 Segmental information

The CICL Group determines its reportable segments by platform, consistent with the manner in which results are reviewed by management. The four reportable segments are:

- Catlin Syndicate, which comprises direct insurance and reinsurance business underwritten by the Catlin Syndicate at Lloyd's;
- Catlin Bermuda, which primarily underwrites reinsurance business, excluding intra-Group reinsurance;
- Catlin UK, which primarily underwrites direct insurance; and
- Catlin US, which primarily underwrites speciality business in the United States.

At 31 December 2007, there were four intra-Group reinsurance contracts in place: the 50% Corporate Quota Share ('CQS'), which cedes Catlin Syndicate risk to Catlin Bermuda, the 60% Quota Share contract ('CUK QS') which cedes Catlin UK risk to Catlin Bermuda and also two 75% Quota Share contracts ('CUS QS') which cede Catlin US risk to Catlin Bermuda. The Long Tail Stop Loss ('LTSL') between the Catlin Syndicate and Catlin Bermuda has not been renewed and the CQS covering the 2004 underwriting year of account has been commuted; however there is still some movement in 2007 on these contracts as the covered years continued to develop. The effects of each of these reinsurance contracts are excluded from segmental revenue and results, as this is the basis upon which the performance of each segment is assessed.

Net underwriting contribution by operating segment for the year ended 31 December 2007 is as follows:

	Catlin Syndicate	Catlin Bermuda	Catlin UK	Catlin US	Total
Gross premiums written	$2,537,904	$311,976	$439,440	$71,306	$3,360,626
Reinsurance premiums ceded	(665,581)	(48,151)	(69,427)	(3,949)	(787,108)
Net premiums written	1,872,323	263,825	370,013	67,357	2,573,518
Net premiums earned	1,903,044	228,647	305,198	52,645	2,489,534
Losses and loss expenses and profit commission	(835,089)	(88,925)	(200,010)	(30,646)	(1,154,670)
Brokerage	(399,137)	(43,427)	(72,649)	(15,759)	(530,972)
Net underwriting contribution	$668,818	$96,295	$32,539	$6,240	$803,892

Net underwriting contribution by operating segment for the year ended 31 December 2006 is as follows:

	Catlin Syndicate	Catlin Bermuda	Catlin UK	Total
Gross premiums written	$1,106,620	$199,144	$299,255	$1,605,019
Reinsurance premiums ceded	(144,479)	(6,235)	(44,182)	(194,896)
Net premiums written	962,141	192,909	255,073	1,410,123
Net premiums earned	917,530	180,320	228,011	1,325,861
Losses and loss expenses and profit commission	(462,503)	(59,852)	(159,194)	(681,549)
Brokerage	(194,196)	(31,617)	(57,323)	(283,136)
Net underwriting contribution	$260,831	$88,851	$11,494	$361,176

Total revenue is the total of net premiums earned as disclosed above, plus net investment income and net realised losses on investments, net realised (losses)/gains on foreign currency exchange, and other income. Of these items, only net premiums earned are measured and managed on a segmental basis.

Total assets by segment at 31 December 2007 and 2006 are as follows:

	2007	2006
Catlin Syndicate	$7,366,964	$2,788,605
Catlin Bermuda	5,355,747	2,932,168
Catlin UK	1,117,368	708,546
Catlin US	363,740	-
Other	2,606,971	1,091,481
Assets acquired from Wellington	-	4,214,867
Consolidation adjustments	(7,000,628)	(2,836,870)
Total assets	$9,810,162	$8,898,797

‘Other' in the table above includes assets such as investments in the CICL Group companies which are not allocated to individual segments. In 2007 the assets acquired from Wellington have been allocated to the appropriate segment. At 31 December 2006 net assets acquired from Wellington had not yet been allocated to segments and therefore were included in one line above.

The amount of goodwill allocated as at 31 December 2007 was $79,245 (2006: $18,363) for Catlin Syndicate and $13,806 (2006: $nil) for Catlin US. At 31 December 2006 goodwill of $68,970 associated with the acquisition of Wellington had not yet been allocated to segments.

5 Investments

Fixed maturities

The fair values and amortised costs of fixed maturities at 31 December 2007 and 2006 are as follows:

	2007		2006	
	Fair value	Amortised cost	Fair value	Amortised cost
US government and agencies	$721,952	$704,623	$733,861	$744,753
Non-US governments	424,098	426,520	338,525	342,150
Corporate securities	529,906	527,476	424,901	426,167
Asset-backed securities	428,508	429,438	535,718	535,974
Mortgage-backed securities	844,486	840,660	636,432	636,916
Total fixed maturities	$2,948,950	$2,928,717	$2,669,437	$2,685,960

$289,091 (2006: $177,943) of the total mortgage-backed securities at 31 December 2007 are represented by investments in Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation bonds.

The composition of the amortised cost of fixed maturities by ratings assigned by ratings agencies is as follows:

	2007		2006	
	Amortised cost	%	Amortised cost	%
US government and agencies	$704,623	24%	$744,753	28%
Non-US governments	426,520	14%	342,150	13%
AAA	1,302,147	45%	1,156,200	43%
AA	182,793	6%	165,875	6%
A	282,386	10%	263,875	10%
BBB	27,438	1%	12,513	-%
Other	2,810	-%	594	-%
Total fixed maturities	$2,928,717	100%	$2,685,960	100%

The gross unrealised gains and losses related to fixed maturities at 31 December 2007 and 2006 are as follows:

	2007		2006	
	Gross unrealised gains	Gross unrealised losses	Gross unrealised gains	Gross unrealised losses
US government and agencies	$17,409	$80	$540	$11,432
Non-US governments	3,243	5,665	261	3,886
Corporate securities	5,226	2,796	486	1,752
Asset-backed securities	1,381	2,311	240	495
Mortgage-backed securities	5,754	1,928	756	1,241
Total fixed maturities	$33,013	$12,780	$2,283	$18,806

In 2007, net realised losses in investments included a loss of $76,787 relating to certain fixed maturities where the CICL Group determined that there was an other than temporary decline in the

value of those investments. There were no other than temporary declines in the value of investments in the year to 31 December 2006. The net realised losses on fixed maturities for the year ended 31 December 2007 were $78,604 (2006: $17,236).

The following is an analysis of how long each of the fixed maturities that were in an unrealised loss position as at 31 December 2007 had been in a continual loss position.

	Less than 12 months		Equal to or greater than 12 months	
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses
US government and agencies	$39,426	$80	$-	$ -
Non-US governments	42,075	4,809	82,200	856
Corporate securities	140,021	2,316	29,387	480
Asset-backed securities	171,210	2,233	2,724	78
Mortgage-backed securities	206,134	1,421	35,069	507
Total fixed maturities	$598,866	$10,859	$149,380	$1,921

Over 80 per cent of the unrealised losses at 31 December 2007 is related to 40 securities. The securities in an unrealised loss position as at 31 December 2007 have been reviewed by the CICL Group with regard to the severity and duration of the losses, and to the nature of the investments and of the issuers. On this basis, the CICL Group has determined that the unrealised losses are temporary.

Proceeds from the sales and maturities of fixed maturities during 2007 were $2,733,266 (2006: $2,122,297). Proceeds from the sales and maturities of short-term investments during 2007 were $191,106 (2006: $102,219). Gross gains of $13,558 (2006: $1,705) and gross losses of $92,528 (2006: $18,896) were realised on fixed maturities and short-term investments in 2007.

Fixed maturities at 31 December 2007, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

	Fair value	Amortised cost
Due in one year or less	$51,344	$51,265
Due after one through five years	1,350,723	1,340,211
Due after five years through ten years	262,969	256,522
Due after ten years	10,920	10,621
	1,675,956	1,658,619
Asset-backed securities	428,508	429,438
Mortgage-backed securities	844,486	840,660
Total	$2,948,950	$2,928,717

The CICL 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 31 December 2007 and 2006.

Investments in funds
Investment in funds comprises investments in a fixed maturities fund, an equity fund, direct hedge funds, funds of hedge funds and cash on deposit with fund managers. As at 31 December 2007 investment in funds included cash on deposit with 13 direct hedge fund managers of $275 million which were made to allow units in the funds to be issued to the CICL Group in January 2008. The CICL Group has classified its investment in funds as trading securities and, accordingly the change in fair value of the individual funds will be recorded in net income as net investment income. The amount of

net investment income for the year ended 31 December 2007 that relates to investment in funds still held at year end was $29,824 (2006: $2,960).

Net investment income
The components of net investment income for the years ended 31 December 2007 and 2006 are as follows:

	2007	2006
Interest income	$264,172	$93,438
Amortisation of premium/(discount)	3,450	6,185
Equity in income of associate	983	1,275
Change in fair value of investment in funds	29,824	2,960
Gross investment income	298,429	103,858
Investment expenses	(3,200)	(6,869)
Net investment income	$295,229	$96,989

Restricted assets
The CICL 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 CICL Group also has investments in segregated portfolios primarily to provide collateral or guarantees for Letters of Credit ('LOC'), as described in Note 10. Finally, the CICL Group also utilises trust funds set up for the benefit of the ceding companies, generally in place of LOC requirements.

The total value of these restricted assets by category at 31 December 2007 and 2006 are as follows:

	2007	2006
Fixed maturities	$1,422,521	$1,666,967
Short term investments	22,881	10,951
Cash and cash equivalents	558,868	751,908
Total restricted assets	$2,004,270	$2,429,826

Securities lending
The CICL Group participates in securities lending programmes under which certain of its fixed maturity investments are loaned to third parties through a lending agent. Collateral in the form of cash, government securities and letters of credit is required at a minimum rate of 102 per cent of the market value of the loaned securities and is monitored and maintained by the lending agent. The CICL Group had $43,917 (2006: $124,486) of securities on loan at 31 December 2007.

6 Investment in associate

The CICL Group, through Catlin Inc., one of its US subsidiaries, has a 25 per cent membership interest in Southern Risk Operations, L.L.C. ('SRO') which is accounted for using the equity method. The CICL Group received cash distributions from SRO during the year ended 31 December 2007 of $1,064 (2006: $1,452). The share of SRO's profit included within the Consolidated Statement of Operations during 2007 was $983 (2006: $1,275). In management's opinion, the fair value of SRO is not less than its carrying value.

7 Reserves for losses and loss expenses

The CICL Group establishes reserves for losses and loss expenses, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves is complex and imprecise, requiring the use of informed estimates and judgments. The CICL 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 they have made a reasonable estimate of the level of reserves at 31 December 2007 and 2006.

The reconciliation of unpaid losses and loss expenses for the years ended 31 December 2007 and 2006 is as follows:

	2007	2006
Gross unpaid losses and loss expenses, beginning of year	$4,005,133	$1,995,485
Reinsurance recoverable on unpaid loss and loss expenses	(996,896)	(575,522)
Net unpaid losses and loss expenses, beginning of year	3,008,237	1,419,963
Net incurred losses and loss expenses for claims related to:		
Current year	1,293,914	679,115
Prior years	(139,244)	2,434
Total net incurred losses and loss expenses	1,154,670	681,549
Net paid losses and loss expenses for claims related to:		
Current year	(105,218)	(64,247)
Prior year	(832,278)	(528,661)
Total net paid losses and loss expenses	(937,496)	(592,908)
Foreign exchange and other	50,930	86,607
Loss portfolio transfer	101,003	-
Business combinations [1]	-	1,413,026
Net unpaid losses and loss expenses, end of year	3,377,344	3,008,237
Reinsurance recoverable on unpaid loss and loss expenses	860,181	996,896
Gross unpaid losses and loss expenses, end of year	$4,237,525	$4,005,133

[1] Wellington net unpaid losses and loss expenses at 31 December 2006. Wellington gross unpaid losses and loss expenses at 31 December 2006 were $2,026,268.

As a result of the changes in estimates of insured events in prior years, the 2007 reserves for losses and loss expenses net of reinsurance recoveries decreased by $139,244 (2006: increase of $2,434). In 2007 the decrease in reserves relating to prior years is due to reductions in expected ultimate loss costs and reductions in uncertainty surrounding the quantification of the net cost of claim events. In 2006 the increase was due to a deterioration of $52,454 in respect of the 2005 hurricanes and $29,400 in respect of a South African motor loss, offset by positive development in respect of recent underwriting years over a number of business classes.

The CICL Group's ultimate gross loss arising from Hurricanes Katrina, Rita and Wilma in 2005 is estimated to be $1,734,281 (2006: $1,661,898) and its ultimate net loss after reinsurance recoveries of $975,190 (2006: $942,997) and net reinstatement premiums of $61,514 (2006: $58,540) is estimated to be $820,605 (2006: $777,441). These amounts represent management's best estimate of the likely final losses to the CICL Group from the three hurricanes. In making this estimate, management has used the best information available, including estimates performed by the CICL Group's underwriters, actuarial and claims staff, retained external actuaries, outside agencies and market studies. Allowance is made in the overall management best estimate of net unpaid losses for an appropriate level of sensitivity, for both individual large losses and the overall portfolio of business. In respect of the 2005

hurricanes, management have particularly considered sensitivities relating to gross losses on direct and reinsurance accounts, underlying loss experience of cedants and reinsurance coverage and security issues.

Loss portfolio transfer
In 2007 Syndicate 2020 closed the 2004 Lloyd's underwriting year of account by way of a Lloyd's reinsurance to close. In closing the 2004 year of account, all outstanding losses were transferred into the 2005 year of account. The CICL Group had an additional ownership of approximately 10 per cent acquired from the external Names in respect of the 2005 year of account, which resulted in an increase in loss reserves of $101,003; this has been treated as a loss portfolio transfer. To the extent that the future run-off of the 2004 year of account differs from what has been recorded, that development will be recorded in the Consolidated Statement of Operations in the period that it is incurred.

8 Reinsurance

The CICL Group purchases reinsurance to limit various exposures including catastrophe risks. Although reinsurance agreements contractually obligate the CICL 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 CICL Group. The effect of reinsurance and retrocessional activity on premiums written and earned is as follows:

	2007		2006	
	Premiums written	**Premiums earned**	**Premiums written**	**Premiums earned**
Direct	$2,505,216	$2,355,056	$1,154,851	$1,070,621
Assumed	855,410	804,110	450,168	434,417
Ceded	(787,108)	(669,632)	(194,896)	(179,177)
Net premiums	$2,573,518	$2,489,534	$1,410,123	$1,325,861

The CICL Group's provision for reinsurance recoverable as at 31 December 2007 and 2006 is as follows:

	2007	2006
Gross reinsurance recoverable	$1,153,307	$1,284,322
Provision for uncollectible balances	(33,460)	(46,791)
Net reinsurance recoverable	$1,119,847	$1,237,531

The CICL Group evaluates the financial condition of its reinsurers and potential reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. All current reinsurers have a financial strength rating of at least 'A' from Standard & Poor's or 'A-' from A M Best, or provide appropriate collateral. However, certain reinsurers from prior years have experienced reduced ratings which has led to the need for the provision. At 31 December 2007, there were four reinsurers which accounted for 5 per cent or more of the total reinsurance recoverable.

	% of reinsurance recoverable	AM Best rating
Hannover Ruck AG	11%	A
Munich Re	11%	A+
GE Frankona Reinsurance Limited	7%	A
National Indemnity Company	6%	A++

9 Derivative financial instruments

Catastrophe swap agreements

Newton Re

On 17 December 2007, the Company entered into a catastrophe swap agreement ('cat swap') that provides up to $225,000 in coverage in the event of one or more natural catastrophes. The Company's counterparty in the cat swap is a special purpose vehicle, Newton Re Limited ('Newton Re'). Newton Re has issued to investors $225,000 in three-year floating rate notes, divided into Class A and Class B notes. The proceeds of those notes provide the collateral for Newton Re's potential obligations to the Company under the cat swap.

The Newton Re cat swap responds to certain covered risk events occurring during a three year period. The categories of risk events covered by the transaction are US hurricanes (Florida, Gulf States, East Coast and Hawaii) and US earthquakes. Newton Re will pay a maximum of $137,500 for US hurricane events and $87,500 for US earthquake events.

The Newton Re cat swap will be triggered for risk events if aggregate insurance industry losses, as estimated by Property Claims Services, meet or exceed defined threshold amounts.

Bay Haven

On 17 November 2006, the Company entered into a cat swap that provides up to $200,250 in coverage in the event of a series of natural catastrophes. The Company's counterparty in the cat swap is a special purpose vehicle, Bay Haven Limited ('Bay Haven'). Bay Haven has issued to investors $200,250 in three-year floating rate notes, divided into Class A and Class B notes. The proceeds of those notes provide the collateral for Bay Haven's potential obligations to the Company under the cat swap.

The Bay Haven cat swap responds to certain covered risk events occurring during a three-year period. No payment will be made for the first three such risk events. Bay Haven will pay the Company $33,375 per covered risk event thereafter, up to a maximum of six events. The aggregate limit potentially payable to the Company is $200,250.

The categories of risk events covered by the Bay Haven transaction are: US hurricanes (Florida, Gulf States and East Coast), California earthquakes, US Midwest earthquakes, UK windstorms, European (excluding UK) windstorms, Japanese typhoons and Japanese earthquakes. Only one payment will be made for each covered risk event, but the cat swap will respond to multiple occurrences of a given category of risk event, such as if more than one qualifying US hurricane occurs during the period.

The Bay Haven cat swap will be triggered for US risk events if aggregate insurance industry losses, as estimated by Property Claims Services, meet or exceed defined threshold amounts. Coverage for non-US risk events will be triggered if specific parametric criteria, such as wind speeds or ground motions, are met or exceeded. The first two events paid under the catastrophe swap would impact the Class B notes; subsequent events, up to the limit of six events over the three year period, would impact the Class A notes.

In addition, on 17 November 2006 the Company entered into a further cat swap agreement with ABN AMRO Bank N.V. London Branch which will respond to the third covered risk event (that is, the covered risk event before the Class B notes are triggered). The terms are otherwise as described for the Class A and Class B notes, except that the limit payable is $56,500 (2006: $46,500).

Accounting treatment

The Newton Re and Bay Haven cat swaps fall within the scope of FAS 133 and are therefore measured in the balance sheet at fair value with any changes in the fair value included in earnings. As at 31 December 2007, the fair value of the cat swaps is a liability of $9,099 (2006: $619). As there is no quoted market value available for these derivatives, the fair values are determined by management based on the valuation of the notes issued by Newton Re and Bay Haven, which are publicly quoted. The fair value of the Newton Re cat swap is derived from indicative prices for the Class A and Class B notes issued by Newton Re. The fair value of the Bay Haven cat swap is determined using an internal

model that takes into account changes in the market for catastrophe reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date.

Other derivative instruments
On acquisition of Wellington, the CICL Group acquired various foreign currency derivatives (forward contracts, caps and collars) and options to purchase shares in Aspen. As at 31 December 2007, the fair value of the foreign currency derivatives was an asset of $9,035 (2006:$24,847), of which $6,139 (2006: $18,324) had a remaining term of less than 12 months. All of the options to purchase shares in Aspen were exercised during 2007. The exercise of the Aspen options resulted in a loss of $6,354, recorded in net realised losses on derivatives. The fair value of the Aspen options at 31 December 2006 was $21,190.

10 Debt and financing arrangements

The CICL Group's outstanding debt as at 31 December 2007 and 2006 consisted of the following:

	2007	2006
Subordinated debt		
Variable rate, face amount €7,000, due 15 March 2035	$10,873	$10,032
Variable rate, face amount $27,000, due 15 March 2036	28,831	29,274
Variable rate, face amount $31,300, due 15 September 2036	33,480	34,103
Variable rate, face amount $9,800, due 15 September 2036	10,482	10,677
Variable rate, face amount €11,000, due 15 September 2036	17,159	15,850
Total subordinated debt	$100,825	$99,936

Subordinated debt
On 12 May 2006 Wellington Underwriting plc (which has been subsequently renamed 'Catlin Underwriting') issued $27,000 and €7,000 of variable rate unsecured subordinated notes. The notes are subordinated to the claims of all Senior Creditors, as defined in the agreement. The notes pay interest based on the rate on three-month deposits in US dollars plus a margin of 317 basis points for the Dollar note and 295 basis points for the Euro note. Interest is payable quarterly in arrears. The notes are redeemable at the discretion of the issuer beginning on 15 March 2011 with respect to the Dollar notes and 22 May 2011 with respect to the Euro notes.

On 20 July 2006 Wellington Underwriting plc issued $31,300, $9,800 and €11,000 of variable rate unsecured subordinated notes. The notes are subordinated to the claims of all Senior Creditors, as defined in the agreement. The notes pay interest based on the rate on three-month deposits in US dollars plus a margin of 310 basis points for the $31,300 notes and 300 basis points for the other two notes. Interest is payable quarterly in arrears. The notes are each redeemable at the discretion of the issuer on 15 September 2011.

Bank facilities
Since November 2003, the Group has participated in a Letter of Credit/Revolving Loan Facility (the 'Club Facility'). The Club Facility has been varied, amended and restated since it was originally entered into, most recently on 15 December 2006 when the credit available under the Club Facility increased from $250,000 and £150,000 to $400,000 and £275,000, respectively. The facility initially included three banks, on 15 December 2006 it increased to four banks and on 25 January 2007 it expanded to seven banks. Each bank participates equally in the Club Facility. The Club Facility is composed of three tranches as detailed below. The following amounts were outstanding under the Club Facility as at 31 December 2007:

- A 364-day $50,000 revolving facility with a one-year term-out option ('Facility A') is available for utilisation. Facility A, while not directly collateralised, is secured by floating charges on Catlin assets and cross-guarantees from material subsidiaries (together with Facilities B and C). Facility A was not utilised by the CICL Group in 2007 and 2006.

- Clean, irrevocable standby LOCs of $497,500 (£250,000) are provided to support the Catlin Syndicate's underwriting at Lloyd's ('Facility B'). As at 31 December 2007, the Catlin Corporate names and Syndicate have utilised Facility B and deposited with Lloyd's 13 LOCs which total the amount of $497,500 (£250,000). In the event that the Catlin Syndicate fails to meet its obligations under policies of insurance written on its behalf, Lloyd's could draw down this letter of credit. These LOCs have an initial expiry date of 20 November 2011. Collateral of $79,600 (£40,000) was provided in 2007.

- A two-year $350,000 standby LOC facility is available for utilisation by Catlin Bermuda and Catlin UK ('Facility C'). It is split into two equal tranches of $175,000 with the first being fully secured by OECD Government Bonds, US Agencies and or cash discounted at varying rates. The second tranche is unsecured. At 31 December 2007, $163,376 in LOCs were outstanding, of which $160,043 were issued for the benefit of insureds and reinsureds of Catlin Bermuda, and $3,333 (£1,675) issued for the benefit of an insured of Catlin UK. $80,132 of the LOCs were issued on an unsecured basis.

The terms of the Club Facility require that certain financial covenants be met on a quarterly basis through the filing of Compliance Certificates. These include maximum levels of possible exposures to realistic disaster scenarios for the CICL Group, as well as requirements to maintain minimum Tangible Net Worth and Adjusted Tangible Net Worth levels. The CICL Group was in compliance with all covenants during 2007.

A second Letter of Credit Facility administered by Citibank on behalf of Lloyds acting for the Lloyds Syndicates had letters of credit totalling $9,848 outstanding at December 31, 2007. These letters of credit are fully secured.

11. Intangible assets and goodwill

The CICL Group's intangibles relate to the purchase of syndicate capacity, customer relationships, distribution channels and US insurance licenses (as admitted and eligible surplus lines insurers).

Net intangible assets and goodwill as at 31 December 2007 and 2006 consist of the following:

	Goodwill	Indefinite life intangibles	Finite life intangibles	Total
Net value at 1 January 2006	$14,913	$48,677	$49	$63,639
Movements during 2006:				
Business combination	68,970	461,580	10,976	541,526
Additions	704	253,446	325	254,475
Foreign exchange revaluation	1,648	6,792	21	8,461
Amortisation charge	-	-	(75)	(75)
Total movements during 2006	71,322	721,818	11,247	804,387
Net value at 31 December 2006	86,235	770,495	11,296	868,026
Movements during 2007:				
Amendments to purchase price allocation	5,542	-	-	5,542
Foreign exchange revaluation	1,274	11,721	80	13,075
Amortisation charge	-	-	(2,215)	(2,215)
Total movements during 2007	6,816	11,721	(2,135)	16,402
Net value at 31 December 2007	$93,051	$782,216	$9,161	$884,428

Goodwill, purchased syndicate capacity and admitted licenses are considered to have an indefinite life and as such are subject to annual impairment testing. Neither goodwill nor intangibles were impaired in 2007 or 2006.

Distribution channels and surplus lines authorisations are considered to have a finite life and are amortised over their estimated useful lives of five years. As at 31 December 2007, the gross carrying amount of finite life intangibles was $11,456 (2006: $11,376) and accumulated amortisation was $2,295 (2006: $80). Amortisation of intangible assets at current exchange rates will amount to approximately $2,290 per annum for the next four years and nil thereafter.

Purchased syndicate capacity
In connection with the Wellington acquisition in December 2006, the CICL Group purchased Wellington's 67 per cent share of the underwriting capacity of Syndicate 2020. Of the purchase price of Wellington, $461,580 was allocated to this capacity (see Note 3 for further details).

In a separate transaction executed simultaneously with the Wellington acquisition, the CICL Group, by way of cessation of Syndicate 2020, in effect acquired the remaining 33 per cent of Syndicate 2020's capacity from the unaligned members. As compensation for the cessation (and, in effect, for surrendering the capacity), unaligned members were given the option of i) 50 pence per £1.00 of capacity; or ii) 40 pence per £1.00 of capacity and the ability to participate in a new reinsurance syndicate that writes a whole account quota-share reinsurance of Syndicate 2003 for the 2007 and 2008 years of account. Approximately one-third of unaligned members elected to take option i), with the balance taking option ii).

This asset was valued at $250,071, or 50 pence per £1.00 of capacity acquired. This represents the cash paid plus an amount representing the participation in a new reinsurance syndicate, a non-monetary asset, which has been valued at 10 pence per £1.00 of capacity acquired. This non-monetary amount, $30,514, has been accounted for as a reinsurance creditor and is amortised over the two years of participation in the new reinsurance syndicate.

Effective 1 January 2007, Syndicate 2020 ceased underwriting and the purchased capacity (and that falling to the CICL Group by way of cessation of Syndicate 2020) has been re-deployed to increase the capacity of Syndicate 2003.

The syndicate capacity intangible asset also includes amounts purchased by the CICL Group in 2002.

12 Taxation

Bermuda
Under current Bermuda law the Company is not required to pay any taxes in Bermuda on their income or capital gains. The Company has received undertakings from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, it will be exempt from taxation in Bermuda until March 2016.

United Kingdom
The CICL 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 CICL 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 Internal Revenue Service and is charged by Lloyd's to Members in proportion to their participation on the relevant Syndicates. Catlin'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 CICL Group also operates in the US through its US subsidiaries, and their income is subject to both US state and federal income taxes.

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

The CICL 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 CICL Group to change the way it operates or become subject to taxation.

The income tax expense for the years ended 31 December 2007 and 2006 is as follows:

	2007	2006
Current tax benefits	-	$(5,438)
Deferred tax expense	$59,790	22,044
Expense for income taxes	$59,790	$16,606

The weighted average expected tax expense has been calculated using pre-tax accounting income/(loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. The weighted average tax rate for the CICL Group is 10.5 per cent (2006: 5.9 per cent). A reconciliation of the difference between the expense for income taxes and the expected tax expense at the weighted average tax rate for the years ended 31 December 2007 and 2006 is provided below.

	2007	2006
Expected tax expense at weighted average rate	$98,206	$1,889
Permanent differences:		
Disallowed expenses	1,938	474
Prior year adjustments including changes in uncertain tax positions	(23,385)	(1,297)
Impact of tax rate changes in the UK	(16,969)	-
Specific contingency provision	-	15,540
Expense for income taxes	$59,790	$16,606

The components of the CICL Group's net deferred tax liability as at 31 December 2007 and 2006 are as follows:

	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	$47,694	$73,346
Future UK double tax relief	-	7,953
Stock options	7,839	-
Deep discount security unwind	1,146	770
Accelerated capital allowances	1,989	1,137
Compensation accruals	12,329	5,080
Syndicate capacity amortisation and other	3,093	156
Total deferred tax assets	$74,090	$88,442
Deferred tax liabilities:		
Intra-Group financing charges	-	(8,932)
Untaxed profits	(179,784)	(104,030)
Intangible assets arising on business combination	(119,148)	(127,017)
Total deferred tax liabilities	(298,932)	(239,979)
Net deferred tax liability	$(224,842)	$(151,537)

As at 31 December 2007, there are potential deferred tax assets of $9,217 in the US companies relating to 2007 calendar year losses but a 100 per cent valuation allowance has been recognised in respect of the losses. A deferred tax asset of $2,184 relating to US losses was recognised as at 31 December 2006.

As at 31 December 2007, a net deferred tax liability of $224,842 is recognised in the balance sheet. As at 31 December 2006, a deferred tax asset of $2,184 relating to US losses was included in other assets in the balance sheet and $153,721 relating to non-US jurisdictions was reported as a deferred tax liability.

As at 31 December 2007, the CICL Group has net operating loss carry forwards of approximately $170,336 (2006: $243,401) which are available to offset future taxable income. The net operating loss carry forwards primarily arise in the UK subsidiaries where they are expected to be fully used. There are no time restrictions on the use of these losses.

Uncertain tax positions
With effect from 1 January 2007, the CICL Group adopted FASB Interpretation No. 48, 'Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109'. On adoption of FIN 48, the total amount of the CICL Group's unrecognised tax benefits arising from uncertain tax positions was $11,201. As at 31 December 2007, this amount was $9,300. All unrecognised tax benefits would affect the effective tax rate if recognised.

A reconciliation of the beginning and ending amount of unrecognised tax benefits arising from uncertain tax positions is as follows:

	2007
Unrecognised tax benefits balance at 1 January 2007:	
Gross increases for tax positions in current year	$11,201
Gross increases for tax positions of prior years	7,031
Gross decreases for tax positions of prior years	(8,932)
Unrecognised tax benefits balance at 31 December 2007	$9,300

The CICL Group does not believe it would be subject to any penalties in any open tax years and has not accrued any such amounts. The CICL Group accrues interest and penalties (if applicable) as income tax expenses in the consolidated financial statements. The CICL Group did not pay or accrue any interest and penalties in 2007 relating to uncertain tax positions.

The following table lists the open tax years that are still subject to examination by local tax authorities in major tax jurisdictions:

Major tax jurisdiction	**Years**
United Kingdom	2006-2007
United States	2004-2007

13 Stockholder equity

The following is a detail of the number and par value of shares issued and outstanding as at 31 December 2007 and 2006:

	Issued and outstanding	
	Number of shares	**Par value $**
Ordinary common shares		
As at 31 December 2007 and 2006	1,000,100	$1
Preferred shares, par value $0.01 per share		
As at 31 December 2007 (2006: nil)	600,000	$6

Capital contributions
On 14 December 2007, the Company received a non-cash contribution of $700,000 from its parent as additional paid in capital. On 14 March 2006, the Group raised $65,231, net of expenses through the issuance of new common shares. On 31 March 2006, the Group contributed this balance to the Company as additional paid in capital.

Preferred shares
On 18 January 2007, the Company issued 600,000 of non-cumulative perpetual preferred shares, par value of $0.01 per share, with liquidation preference of $1,000 per share, plus declared and unpaid dividends. Dividends are payable semi-annually in arrears only if, as and when declared by the Board of Directors, on 19 January and 19 July, commencing on 19 July 2007, at a rate of 7.249 per cent on the liquidation preference, up to but not including 19 January 2017. Thereafter, if the shares have not yet been redeemed, dividends will be payable quarterly at a rate equal to 2.975 per cent plus the 3-month LIBOR Rate of the liquidation preference. The Company received proceeds of approximately $589,785, net of issuance costs, which were used to repay the $500,000 bridge facility as well as Facility A described in Note 10, and for general corporate purposes. The preference shares do not have a maturity date and are not convertible into or exchangeable into any of the Company's or the Group's other securities.

Dividends on re-organisation
As described in Note 1, one of the Company's subsidiaries acquired a number of entities from the Company's parent. In accordance with US GAAP, the entities acquired have been recognised at their previous carrying value in the books of the parent as all entities involved were under common control. As a result, there was a shortfall of $275,932 between the consideration paid to the Company's parent and the carrying value of the entities acquired. This shortfall has been recorded as a distribution from the Company to its parent.

Dividends on preferred shares
On 17 July 2007, the Board of the Company approved a dividend of $21,868 to the holders of the non-cumulative perpetual preference shares. This dividend was paid on 19 July 2007.

14 Employee stock compensation schemes

Catlin Group has two stock compensation schemes in place under which awards are outstanding: a Performance Share Plan, adopted in 2004, and a Long Term Incentive Plan, adopted in 2002. These financial statements include the total cost of stock compensation for both plans, calculated using the fair value method of accounting for stock-based employee compensation. The total cost of the plans expensed in the year ended 31 December 2007 relating to employees of the CICL Group was $12,559 (2006: $9,739). Remaining stock compensation to be expensed in future periods relating to these plans is $25,949.

Performance Share Plan ('PSP')
On 9 March 2007, a total of 2,530,341 options with $nil exercise price and 518,999 non-vested shares (total of 3,049,340 securities) were granted to the CICL Group's employees under the PSP. On 10 October 2007, a further 252,737 options with $nil exercise price and 120,852 non-vested shares (total of 373,589 securities) were granted, resulting in a total of 3,614,105 securities granted to the CICL Group's employees under the PSP in 2007. Up to half of the securities will vest on 9 March 2010 and up to half will vest on 9 March 2011, subject to certain performance conditions.

These securities have been treated as non-vested shares and as such have been measured at their fair value on the grant date as if they were fully vested and issued and assuming an annual attrition rate amongst participating employees of 12 per cent for grants made in 2007, 6 per cent for grants made in 2006 and 3 per cent for grants made in 2005. This initial valuation is revised at each balance sheet date to take account of actual achievement of the performance condition that governs the level of vesting and any changes that may be required on the attrition assumption. The difference is charged or credited to the income statement, with a corresponding adjustment to equity. The total number of PSP securities outstanding at 31 December 2007 relating to employees of the CICL Group was

7,212,032 (2006: 4,097,322) and the total compensation expense relating to the PSP for the year ended 31 December 2007 was $12,355 (2006: $8,968).

None of the PSP securities have vested. The table below shows the unvested PSP securities as at 31 December:

	2007	2006
Outstanding, beginning of year	4,097,322	2,072,374
Granted during year	3,422,929	2,097,445
Forfeited during year	(308,219)	(72,497)
Outstanding, end of year	7,212,032	4,097,322
Fair value per PSP security as at date of grant - March	$9.70	$8.71
Fair value per PSP security as at date of grant - October	$9.46	N/A

Long Term Incentive Plan ('LTIP')
Interests in a total of 10,370,952 ordinary common shares were granted to eligible employees of the CICL Group. The individual awards were divided into options with an exercise price of $5.00 and exercisable in four equal annual tranches, and options with exercise prices of $10.00, $12.50 and $15.00, exercisable on 1 July 2007. The total compensation expense relating to the LTIP for the year ended 31 December 2007 was $204 (2006: $771).

The options are fully vested as at 31 December 2007 and all options will expire by 4 July 2012. Options with exercise prices of $10.00, $12.50 and $15.00 expired on 31 December 2007. The table below shows the vesting dates and the number of options that have vested on those dates:

Date	Number of options vesting
4 July 2003	934,046
6 April 2004 (IPO date)	2,889,292
4 July 2004	1,026,197
4 July 2005	1,013,094
4 July 2006	1,005,500
4 July 2007	3,502,823
Total	10,370,952

The table below shows the status of the interests in shares as at 31 December:

	2007		2006	
	Number	Weighted average exercise price ($)	Number	Weighted average exercise price ($)
Outstanding, beginning of period	8,850,039	9.76	9,559,275	9.68
Exercised during year	(501,044)	5.92	(544,500)	4.97
Forfeited during year	(130,168)	12.32	(164,736)	11.94
Expired during year	(5,642,975)	12.53	-	-
Outstanding, end of period	2,575,852	4.94	8,850,039	9.76
Exercisable, end of period	2,575,852	4.94	5,590,343	8.45

Exercise price	Number of options outstanding	Average remaining contractual life (years)
$5.00	2,377,295	4.5
£3.50	198,557	4.5
Total	2,575,852	4.5

As at year end, there was no amount receivable from stockholders on the exercise of interests in shares.

The fair value of the options granted during 2004 was calculated using the Black-Scholes valuation model and is amortised over the expected vesting period of the options, being four years for the £3.50 tranche, 1.875 years for the performance based tranche that vested on admission and 3.625 for the performance based tranche that vested on 4 July 2007. The valuation has assumed an average volatility of 40 per cent, no expected dividends and a risk free rate using US dollar swap rates appropriate for the expected life assumptions: 2.8 per cent for four years; 1.79 per cent for 1.875 years; and 2.64 per cent for 3.625 years.

The fair value of the options granted prior to 2004 was calculated using the Black-Scholes valuation model and is being amortised over the expected vesting period of the options, being 4.5 years from the date of the subscription agreement. The valuation has assumed a risk free rate of return at the average of the four- and five-year US dollar swap rates of 3.39 per cent and no expected volatility (as the minimum value method was utilised because the Group was not listed on the date the options were issued).

15 Other comprehensive income/(loss)

The following table details the tax effect of the individual components of other comprehensive income/(loss) for 2007 and 2006:

2007	Amount before tax	Tax benefit/ (expense)	Amount after tax
Unrealised losses arising during the year	$(42,547)	$6,450	$(36,097)
Reclassification for losses realised in income	78,970	(13,259)	65,711
Net unrealised losses on investments	36,423	(6,809)	29,614
Defined benefit pension plan	(818)	264	(554)
Cumulative translation adjustments	42,097	(6,247)	35,850
Change in accumulated other comprehensive income	$77,702	$(12,792)	$64,910

2006	Amount before tax	Tax benefit (expense)	Amount after tax
Unrealised losses arising during the year	$18,684	$(5,750)	$12,934
Less reclassification for losses realised in income	(17,041)	3,564	(13,477)
Net unrealised losses on investments	1,643	(2,186)	(543)
Cumulative translation adjustments	(9,055)	4,907	(4,148)
Change in accumulated other comprehensive loss	$(7,412)	$2,721	$(4,691)

The following table details the components of accumulated other comprehensive income/(loss) as at 31 December:

	2007	2006
Net unrealised gains/(losses) on investments	$14,424	$(15,190)
Cumulative translation adjustments	24,950	(10,900)
Funded status of defined benefit pension plan adjustment	(554)	-
Accumulated other comprehensive income/(loss)	$38,820	$(26,090)

16 Pension commitments

The CICL Group operates various pension schemes for the different countries of operation. In addition, the Group acquired a defined benefit pension plan and defined contribution plans as part of the Wellington acquisition.

In the UK, the CICL Group operates defined contribution schemes for certain directors and employees, which are administered by third party insurance companies. The pension cost for the UK scheme was $8,035 for the year ended 31 December 2007 (2006: $4,184).

In Bermuda, the CICL Group operates a defined contribution scheme, under which CICL Group contributes a specified percentage of each employee's earnings. The pension cost for the Bermuda scheme was $733 for the year ended 31 December 2007 (2006: $683).

In the US, Catlin Inc. has adopted a 401(k) Profit Sharing Plan ('the Plan') qualified under the Internal Revenue Code in which all employees meeting specified minimum age and service requirements are eligible to participate. The Plan allows eligible participants to contribute a portion of their salary to the Plan on a tax-deferred basis. Catlin Inc. will match the employee contributions up to 100 per cent of the first 6 per cent of salary contributed. An additional discretionary contribution may be made to the plan as determined by the Board of Directors of Catlin Inc. on an annual basis and is allocated on a pro rate basis to individual employees based on eligible compensation. In 2005 Catlin Inc. established a Non-Qualified Deferred Compensation Plan ('Non-Qualified Plan') under which higher-paid employees are eligible for supplemental retirement benefits in excess of statutory limitations on Plan contributions and benefits. The expense related to the Non-Qualified Plan in for the year ended 31 December 2007 was $575 (2006: $183). The pension cost for the Plan for the year ended 31 December 2007 was $2,875 (2006: $384).

In connection with the acquisition of Wellington in December 2006, the CICL Group assumed liabilities associated with a defined benefit pension scheme which Wellington sponsored. The scheme has been closed to new members since 1993. The current membership consists only of pensioners and deferred members. The movements in the period are shown in the table below.

	2007	2006
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	$32,720	-
Interest cost	1,654	-
Actuarial gain	(1,074)	-
Benefits paid	(1,948)	-
Foreign exchange	508	-
Business combination	-	32,720
Projected benefit obligation, end of year	31,860	$32,720
Change in plan assets:		
Fair value of plan assets, beginning of year	34,429	-
Expected return on plan assets	1,742	-
Actuarial loss	(1,970)	-
Benefits paid	(1,938)	-
Foreign exchange	518	-
Business combination	-	34,429
Fair value of plan assets, end of year	32,781	$34,429
Reconciliation of funded status:		
Funded status	921	$1,709
Net pension asset recognised at year end	921	$1,709

The amounts recognised in net income were as follows:

	2007	2006
Interest cost	1,654	-
Expected return on plan assets	(1,742)	-
Net credit recognised in net income	(88)	-

The actuarial assumptions used to value the benefit obligation at 31 December were as follows:

	2007	2006
Discount rate	5.8%	5.1%
Price inflation	5.8%	5.1%
Pension increases to pensions in payment	3.0%	3.2%

As the plan was assumed from Wellington at 31 December 2006, there are no income statement effects in 2006.

The objectives in managing the scheme's investments are to ensure that sufficient assets are available to pay members' benefits as they arise, with due regard to minimum regulatory requirements and the employer's ability to meet contribution payments. It is believed that, in relation to membership consisting only of pensioners and deferred members, these objectives are best met by investment in fixed income securities. The investments are in a pooled, non-government bond fund which is diversified across a large number of securities in order to reduce specific risk.

As at 31 December 2007, approximately 100 per cent of plan assets were held in debt securities, with the remaining insignificant amount held as cash. No plan assets are expected to be returned to the CICL Group during 2008.

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class. The return on debt securities is the current market yield on debt securities. The expected return on other assets is derived from the prevailing interest rate set by the Bank of England as at the measurement date.

Estimated future benefit payments for the defined benefit pension plan, are as follows:

2008	$2,040
2009	$2,488
2010	$2,289
2011	$2,637
2012	$2,587
2013 to 2017 inclusive	$14,975

No contributions are expected to be paid to the defined benefit plan in 2008.

17 Statutory financial data

The CICL Group's subsidiaries' statutory capital and surplus was $3,283,887 at 31 December 2007 (2006: $1,459,950). The unaudited statutory surplus of each of its principal operating subsidiaries is in excess of regulatory requirements.

The CICL Group's ability to pay dividends is subject to certain regulatory restrictions on the payment of dividends by its subsidiaries. The payment of such dividends is limited by applicable laws and statutory requirements of the jurisdictions in which CICL Group operates.

The CICL Group is also subject to restrictions on some of its assets to support its insurance and reinsurance operations, as described in Note 5.

18 Commitments and contingencies

Legal proceedings
The CICL Group is party to a number of legal proceedings arising in the ordinary course of the CICL 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 CICL 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 CICL Group believes that there are no significant concentrations of credit risk associated with its investments or its reinsurers. Note 8 describes concentrations of more than 5 per cent of the CICL Group's total reinsurance recoverable asset.

Letters of credit
The CICL Group provides finance under its Club Facility to enable its subsidiaries to continue trading and to meet its liabilities as they fall due, as described in Note 10.

Future lease commitments
The CICL Group leases office space and equipment under non-cancellable operating lease agreements, which expire at various times. Future minimum annual lease commitments for non-cancellable operating leases as at 31 December 2007 are as follows:

2008	$13,938
2009	11,923
2010	11,648
2011	9,061
2012 and thereafter	40,443
Total	$87,013

Under non-cancellable sub-lease agreements, the CICL Group is entitled to receive future minimum sub-lease payments of $1,298 (2006: $869).

19 Related parties

The CICL Group purchased services from Catlin Estates Limited and Burnhope Lodge, both of which are controlled by a Director of the Group. The cost of services purchased from Catlin Estates Limited and Burnhope Lodge during 2007 was $242 (2006: $58).

During 2007, the CICL Group entered into a lease agreement with The Whitfield Group Ltd., the president of which is related to a Director of the Company. Total rent incurred during 2007 amounted to $141 (2006: $nil).

All transactions with related parties were entered into on normal commercial terms.

The balances due (to)/from the Company's parent represent inter-company expenses paid on behalf of the other party, as well as balances related to the corporate reorganisation that was finalised in 2007.

20 Subsequent events

Catastrophe bond
On 21 February 2008 the CICL Group entered into a further contract with Newton Re Limited for US$150,000 of annual aggregate protection against accumulated losses from US windstorm, US earthquake, European windstorm, Japanese typhoon and Japanese earthquake events in the CICL Group's property treaty book. The transaction provides coverage on a first-event and accumulated aggregate retrocession protection on a fully collateralised basis.

Preferred share dividend
The Board of the Company approved a dividend of $21,750 to the holders of the non-cumulative perpetual preference shares. This dividend was paid on 19 January 2008.