

---

# CATLIN

---

## CATLIN INSURANCE COMPANY LTD. 600,000 PREFERRED SHARES (NON-CUMULATIVE, \$1,000 LIQUIDATION PREFERENCE)

---

We are offering 600,000 of our Non-Cumulative Perpetual Preferred Shares, par value \$0.01 per share, which we refer to in this offering memorandum as the “Shares”. Upon the liquidation, dissolution or winding-up of Catlin Insurance Company Ltd., the holders of the Shares will be entitled to receive from our assets legally available for distribution to shareholders after satisfaction of indebtedness and other prior ranking claims, if any, a liquidation preference of \$1,000 per Share, plus declared and unpaid dividends, if any, without accumulation of any undeclared dividends. The Shares will be offered and sold, and may be transferred, only in amounts of \$100,000 and multiples of \$1,000 in excess thereof. Accordingly, holders of Shares must hold at least 100 Shares at any one time.

Holders of the Shares will be entitled to receive cash dividends only when, as and if declared by our board of directors or a duly authorized committee of the board. Any such dividends will be payable semi-annually in arrears on the 19th day of each of January and July, commencing on July 19, 2007, at a rate per year equal to 7.249% of the liquidation preference, up to but not including January 19, 2017. Thereafter, if the Shares have not been redeemed, any dividends declared by our board of directors or a duly authorized committee of the board will be payable quarterly at a floating dividend rate reset quarterly at a rate per year equal to 2.975% plus the 3-month LIBOR Rate (as defined herein) of the liquidation preference. Dividends on the Shares are not cumulative. So long as any Shares remain outstanding, no dividend shall be paid or declared on our common shares, junior stock or any of our other securities ranking junior to the Shares (other than a dividend payable solely in common shares, junior stock or in such other junior securities), unless the full dividends for the latest completed dividend period on all outstanding Shares and any Parity Stock (as defined herein) have been declared and paid or provided for. Catlin Group Limited has given a similar undertaking in relation to its parity and junior obligations in a Deed Poll.

Except in specified circumstances relating to certain tax, corporate or regulatory events, the Shares are not redeemable prior to January 19, 2017. On any dividend payment date falling on or after that date, the Shares will be redeemable at our option, in whole or in part, at a redemption price of \$1,000 per Share, plus declared and unpaid dividends, if any, without accumulation of any undeclared dividends. See “Description of the Shares — Redemption”, “— Redemption Following Certain Corporate Events”, “— Regulatory Event Redemption” and “— Tax Redemption”. Our ability to redeem the Shares is subject to certain restrictions described under “Description of the Shares — Redemption”. The Shares will not have voting rights, except as set forth under “Description of the Shares — Voting Rights”.

---

**Offering price: \$1,000 per Share plus accrued dividends, if any, from January 18, 2007**

---

***Investing in the Shares involves risks. See “Risk Factors” beginning on page 14 of this offering memorandum to read about some of the risks you should consider before buying the Shares.***

The Shares have not been approved or disapproved by the US Securities and Exchange Commission, or the SEC, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Shares or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offence in the United States.

The Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the “Securities Act”), or under the applicable securities laws of Canada, Australia or Japan or under any other securities laws and, subject to certain exceptions, may not be offered or sold directly or indirectly within the United States, Canada, Australia or Japan or to any resident of Canada, Australia or Japan. The Shares are being offered in the United States only to qualified institutional buyers, as defined in Rule 144A under the Securities Act, pursuant to an exemption from the registration requirements of the Securities Act, and are being offered outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Prospective purchasers are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

It is expected that delivery of the Shares in book-entry form will be made against payment therefor in US dollars in same day funds through the facilities of The Depository Trust Company on or about January 18, 2007.

---

*Joint Coordinators and Bookrunners*

**JPMorgan**

**Lehman Brothers**

The date of this Offering Memorandum is January 11, 2007

## TABLE OF CONTENTS

	<u>Page</u>
About This Offering Memorandum .....	3
Forward-Looking Statements .....	4
Summary .....	6
The Offering .....	9
Summary Financial and other Information for Catlin Bermuda and Its Subsidiaries .....	13
Risk Factors .....	14
Use of Proceeds .....	34
Capitalization .....	35
Selected Financial and Other Information for Catlin Bermuda and Its Subsidiaries .....	36
Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	37
Description of Catlin Bermuda and the CICL Group .....	53
Description of the Catlin Group .....	58
Management .....	87
Regulation .....	90
Related Party Transactions .....	95
Description of the Shares .....	97
Taxation .....	108
Plan of Distribution .....	117
Validity of the Securities .....	121
Independent Registered Public Accounting Firm .....	121
Available Information .....	121
Glossary .....	122
Index to Consolidated Financial Statements .....	F-1

---

You should rely only on information contained in this offering memorandum or information to which we have referred you. We have not authorized anyone to provide you with information that is different. This offering memorandum may only be used where it is legal to sell these securities. The information in this offering memorandum may only be accurate as of the date of this offering memorandum.

We are offering to sell, and are seeking offers to buy, the Shares only in jurisdictions where offers and sales are permitted. The distribution of this offering memorandum and the offering of the Shares in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this offering memorandum must inform themselves about and observe any restrictions relating to the offering of the Shares and the distribution of this offering memorandum outside the United States. This offering memorandum does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this offering memorandum by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. Each purchaser or subscriber of Shares offered hereby, in making a purchase or subscription, will be deemed to have made certain acknowledgements, representations and agreements as set out in the section of this offering memorandum entitled “Plan of Distribution — Transfer Restrictions”.

This offering memorandum is not a prospectus for the purposes of EU Directive 2003/71/EC.

## ABOUT THIS OFFERING MEMORANDUM

This offering memorandum is based on information provided by us and other sources believed by us to be reliable. The initial purchasers and their respective affiliates and any person acting on their behalf are not responsible for, and are not making any representation or warranty, express or implied, to you concerning our future performance or the accuracy or completeness of this offering memorandum.

In making an investment decision regarding the Shares offered hereby, you must rely on your own examination of our company and the terms of the offering, including the merits and risks involved. You should rely only on the information contained in this offering memorandum. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this offering memorandum is accurate only as of its date. Our business, financial condition, results of operations and the information set forth in this offering memorandum may have changed since the date of this offering memorandum.

You should not consider any information in this offering memorandum to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Shares. We are not, and the initial purchasers are not, making any representation to any offeree or purchaser of the Shares regarding the legality of an investment in the Shares by such offeree or purchaser under appropriate investment or similar laws.

The contents of our website do not form any part of this offering memorandum.

In connection with the offering, the initial purchasers and any of their respective affiliates acting as an investor for its own account may take up the Shares and in that capacity may retain, purchase or sell for its own account such securities and any of our securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references in this document to the Shares being offered or placed should be read as including any offering or placement of securities to the initial purchasers and any such affiliate acting in such capacity. The initial purchasers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this offering memorandum and the offer and sale of the Shares may be restricted by law in certain jurisdictions. You must inform yourself about, and observe, any such restrictions. See “Description of the Shares” and “Plan of Distribution” elsewhere in this offering memorandum. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Shares or possess or distribute this offering memorandum and must obtain any consent, approval or permission required for your purchase, offer or sale of the Shares under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. We are not, and the initial purchasers are not, making an offer to sell the Shares or a solicitation of an offer to buy any of the Shares to any person in any jurisdiction except where such an offer or solicitation is permitted. The initial purchasers reserve the right to reject any offer to purchase the Shares in whole or in part and to sell to any prospective investor less than the full amount of Shares requested.

Securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda, which regulates the sale of securities in Bermuda.

All applicable provisions of the Financial Services and Markets Act 2000, or FSMA, must be complied with in respect of anything done in relation to the Shares in, from or otherwise involving the United Kingdom.

No action has or will be taken in any Member State of the European Economic Area that as at the date of this offering memorandum has implemented the Prospectus Directive (each a “Relevant Member State”) to permit an offer to the public of the Shares. Accordingly, the Shares may only be offered or sold in Relevant Member States at any time:

- (i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity having two or more of (1) an average of at least 250 employees during the financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000 as shown in the last annual or consolidated accounts; or

(iii) in any other circumstances which do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purpose of this provision, the expression “offer to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offering and the Shares to be offered so as to enable an investor to decide to purchase or to subscribe the Shares, as the same may be varied in that Relevant Member State, and “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measures in each Relevant Member State.

Unless otherwise indicated, or the context otherwise requires, references in this offering memorandum to “Catlin Bermuda”, the “Issuer”, “we”, “us” and “our” or similar terms are to Catlin Insurance Company Ltd., and references to “CICL Group” are to Catlin Bermuda and its subsidiaries. References to “Catlin Group” are to Catlin Group Limited and its subsidiaries. References to “Catlin UK” are to Catlin Insurance Company (UK) Ltd., references to “CICI” are to Catlin Insurance Company, Inc. and references to the Catlin Syndicate are to Syndicate 2003 at Lloyd’s. Certain insurance industry and technical terms used in this document are defined or explained in the Glossary.

## FORWARD-LOOKING STATEMENTS

Some of the statements contained in this offering memorandum are forward-looking statements. These forward-looking statements include estimates and assumptions related to economic, competitive and legislative developments. We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries and the political and legal environment in which we operate and other information that is not historical information.

Words such as “believe”, “anticipate”, “estimate”, “expect”, “intend”, “predict”, “project”, “could”, “may”, “will”, “plan” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

These forward-looking statements are subject to change and uncertainty which are, in many instances, beyond our control and have been made based upon management’s expectations and beliefs concerning future developments and their potential effect upon us. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under “Risk Factors”, as well as those included elsewhere in this offering memorandum. There can be no assurance that future developments will be in accordance with management’s expectations or that the effect of future developments on us will be those anticipated by management. Actual results could differ materially from those expected by management, depending on the outcome of various factors. These factors include:

- our ability to implement our business strategy across insurance market cycles;
- the continuing acceptance of our security and financial condition by rating agencies, regulators, brokers and our insureds and reinsureds;
- our ability to maintain or improve our ratings, which may be affected by our ability to raise additional equity or debt financing, as well as other factors described herein;
- general economic and market conditions (including inflation, interest rates and foreign currency exchange rates) and conditions specific to the reinsurance and insurance markets in which we operate;

- competition, including increased competition, on the basis of pricing, capacity, coverage terms or other factors;
- the loss of key personnel;
- the integration of businesses we may acquire into our existing operations;
- the accuracy of the estimates and judgments utilized in the preparation of our financial statements, including those related to revenue recognition, loss and other reserves, reinsurance recoverables, investment valuations, intangible assets, bad debts, income taxes, contingencies and litigation;
- greater than expected loss ratios on business written by us and adverse developments on claim and/or claim expense liabilities on business previously written;
- severity and/or frequency of losses;
- claims for natural or man-made catastrophic events in our insurance or reinsurance business causing large losses and substantial volatility in our results of operations;
- acts of terrorism, political unrest and other hostilities or other unforecasted and unpredictable events;
- our ability to integrate new management, staff and systems to manage successfully our business, particularly given its rapid growth;
- the availability of reinsurance to manage our gross and net exposures and the cost of such reinsurance;
- the failure of reinsurers, managing general agents or others to meet their obligations to us;
- the timing of loss payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;
- changes in accounting principles or the application of such principles by regulators or other relevant authorities;
- statutory or regulatory developments, including as to tax policy and matters and insurance and other regulatory matters (such as the adoption of proposed legislation that would affect Bermuda-headquartered companies and/or Bermuda-based insurers or reinsurers); and
- rating agency policies and practices.

In addition, other general factors could affect our results, including: (a) developments in the world's financial and capital markets and our access to such markets; (b) changes in regulations or tax laws applicable to us, our subsidiaries, brokers or customers; and (c) the effects of business disruption or economic contraction due to terrorism or other hostilities.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise other than as required by applicable laws. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

## SUMMARY

*This summary contains basic information about us, the Catlin Group and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing in the Shares. You should read this entire offering memorandum carefully, including the section entitled "Risk Factors", our financial statements and the notes thereto, and the financial statements and the notes thereto included elsewhere in this offering memorandum, before making an investment decision.*

### **Catlin Bermuda**

Catlin Insurance Company Ltd., or Catlin Bermuda, is the Bermudian insurance and reinsurance subsidiary of Catlin Group Limited (which, together with its subsidiaries, we refer to as the Catlin Group). Catlin Bermuda and its subsidiaries, which we refer to as the CICL Group, provide a wide range of property and casualty insurance and reinsurance products worldwide, including property catastrophe and per risk excess of loss treaty and casualty reinsurance products.

Catlin Bermuda is one of the principal operating subsidiaries of the Catlin Group. Through intra-group reinsurance arrangements and capital support, it serves to centralize a significant proportion of the assets, capital and underwriting risk of all of the Catlin Group, within regulatory and other constraints.

Catlin Bermuda's subsidiaries include Catlin Insurance Company (UK) Ltd, or Catlin UK, and Catlin Insurance Company, Inc., or CICI. Members of the CICL Group underwrite insurance and reinsurance for third parties and Catlin Bermuda reinsures risk written by other members of the Catlin Group. For the six months ended and as at June 30, 2006, the CICL Group's gross premiums written and total assets were \$465.2 million and \$3,111.6 million, respectively, representing 52% and 71%, of the Catlin Group's total gross premiums written and total assets. Of the CICL Group's gross premiums written, \$221.9 million, or 48%, was assumed under reinsurance contracts with other companies in the Catlin Group which are outside the CICL Group. Of the remaining \$243.3 million in gross premiums written by the CICL Group on behalf of third parties, \$116.6 million, or 25% of total gross written premiums, was underwritten by Catlin UK and \$126.7 million, or 27% of total gross written premiums, was underwritten by Catlin Bermuda.

### **The Catlin Group**

Established in 1984, the Catlin Group is an international specialist property and casualty insurer and reinsurer, writing more than 30 classes of business from four underwriting platforms:

*the Catlin Syndicate*, which is the largest syndicate at Lloyd's based on 2007 premium capacity of up to £1,250 million, and is a recognised leader of numerous classes of specialty insurance and reinsurance;

*Catlin Bermuda*, which underwrites property treaty and casualty treaty reinsurance and property and casualty insurance and also provides reinsurance support for other Catlin underwriting platforms;

*Catlin UK*, which specializes in underwriting commercial non-life insurance for UK clients; and

*Catlin US*, which comprises CICI, a Texas-domiciled insurer expected to commence operations soon, together with Wellington Speciality Insurance Company, a non-admitted excess and surplus lines carrier, and various other underwriting offices in the US.

In addition to the underwriting platforms, Catlin maintains a network of international offices that source business locally and regionally for the underwriting platforms.

The Catlin Group has grown from a Lloyd's marine syndicate with gross premiums written of \$6 million (on a Lloyd's accounting basis) in 1985, its first full year of operation, to an international insurance and reinsurance group with \$1.387 billion in gross premiums written in 2005 and \$903.1 million in the first six months of 2006. The Catlin Group now underwrites a wide range of business classes at Lloyd's, in Bermuda, in the UK company market and in the US. While during this period numerous competitors at Lloyd's and in other insurance markets have been established and in some cases have exited the market fully or partially, the Catlin Group's record of managed growth and financial success over the past 20 years distinguishes it from many of its peers. The

common shares of the Catlin Group's holding company, Catlin Group Limited, have been traded on the London Stock Exchange since April 2004.

### **The Wellington offer**

On December 18, 2006, Catlin Group Limited announced that its recommended offer to acquire all of the issued and to be issued share capital of Wellington Underwriting plc, referred to in this offering memorandum as Wellington, had been declared unconditional.

The offer involved an offer of both cash and shares of Catlin Group Limited to Wellington shareholders, and valued each Wellington share at approximately 122 pence. This valued the issued share capital of Wellington at approximately £602 million. Wellington is the holding company of an international insurance and reinsurance group, which we refer to in this offering memorandum as the Wellington Group. The core of the Wellington Group's business is in the Lloyd's insurance market, where the Wellington Group manages and underwrites a diversified book of insurance and reinsurance business. The nature and scope of the Wellington Group's business is described in more detail under "Description of the Catlin Group — The Wellington offer".

We believe that the Catlin Group's and the Wellington Group's existing businesses are a strong complementary fit and the acquisition of Wellington is expected to bring material benefits to both businesses. The Catlin Group post-acquisition is a major international specialty insurance business with well established underwriting platforms in the United Kingdom and Bermuda and a significantly enhanced underwriting and distribution platform in the United States.

We believe that both businesses have strong operational and underwriting expertise which will be further strengthened and diversified through the combination. While in 2006 both the Catlin Group and Wellington had among the largest Lloyd's syndicates, the Catlin Group has a well developed Bermuda platform — an area where Wellington, prior to the announcement of the recommended offer, had plans to expand. In the US, Wellington has a growing business generating approximately \$280 million in gross premiums written in 2006 which will accelerate the Catlin Group's existing plans to develop in that market. The combination therefore creates the opportunity for both significant cost savings and revenue growth. Each of the Catlin Group's core operating platforms — the Catlin Syndicate, Catlin Bermuda, Catlin US and Catlin UK — will be strengthened as a result of the acquisition.

The acquisition is expected to have a direct impact on Catlin Bermuda. As discussed below in "Related Party Transactions — Intra-group Reinsurance Contracts", a significant portion of the Catlin Group's risks are ceded to Catlin Bermuda through intra-group reinsurance contracts. The acquisition is expected to increase the premiums written by the Catlin Group, and as a result the intra-group reinsurance premium flowing to Catlin Bermuda is expected to increase as well.

### **Strategy**

The Catlin Group has formulated an integrated operating strategy for the CICL Group and its other businesses, of which the primary objectives are:

- To develop and utilize the Catlin Group's distinctive "multiple platform" underwriting structure to maximize earnings and to produce controlled, sustainable and diversified growth;
- To strengthen further its distribution network to provide the Catlin Group with increased access to business in diverse geographic regions and business classes;
- To manage its capital efficiently and to adjust underwriting strategies to exploit prevailing conditions, both in the overall marketplace and in individual classes of business;

- To manage risk through effective underwriting controls and procedures, rigorous analytical review, portfolio diversification, and the efficient use of reinsurance;
- To continue enhancing and improving business processes and controls; and
- To maintain underwriting talent, discipline and focus.

The principal executive office for Catlin Bermuda is located at Catlin Insurance Company Ltd., Cumberland House, 6th floor, 1 Victoria Street, Hamilton HM 11, Bermuda, and the telephone number is (441) 296-0060.

## THE OFFERING

The description of the terms of the Shares in this section is only a summary. Because the following summary may not contain all of the information that is important to you, you should refer to the bye-laws of Catlin Bermuda for a complete description of the terms of the Shares. You should also refer to the section entitled “Description of the Shares” in this offering memorandum.

**Issuer** . . . . . Catlin Insurance Company Ltd.

**Securities Offered** . . . . . Non-Cumulative Perpetual Preferred Shares, par value \$0.01 per share (the “Shares”), with a liquidation preference of \$1,000 per Share, of Catlin Insurance Company Ltd, a Bermudian incorporated company. The Shares will be offered and sold, and may be transferred, only in amounts of \$100,000 and multiples of \$1,000 in excess thereof. Accordingly, holders of Shares must hold at least 100 Shares at any one time.

**Dividends** . . . . . Dividends on the Shares if, as and when declared by our board of directors or a duly authorized committee of the board out of funds legally available for the payment of dividends under Bermuda law, will be payable initially at a fixed rate per annum equal to 7.249% of the liquidation preference, commencing on January 18, 2007 and up to, but not including, January 19, 2017, which period we refer to as the “Fixed Rate Period”.

Commencing on January 19, 2017, dividends on the Shares will be payable at a floating rate per annum equal to 2.975% plus the 3-month LIBOR Rate of the liquidation preference. The dividend rate will be reset quarterly and each such dividend period is referred to as a “Floating Rate Period”.

Dividends on the Shares are non-cumulative. Consequently, if our board of directors or a duly authorized committee of the board does not declare a dividend for any dividend period, holders of the Shares will not be entitled to receive a dividend for such period, and such undeclared dividend will not accumulate and will not be payable. We will have no obligation to pay dividends for a dividend period after the dividend payment date for such period if our board of directors or a duly authorized committee of the board has not declared such dividend before the related dividend payment date, whether or not dividends are declared for any subsequent dividend period with respect to the Shares.

If declared, dividends on the Shares during the Fixed Rate Period will be paid semi-annually in arrears on January 19 and July 19 of each year and during the Floating Rate Period will be paid quarterly in arrears on January 19, April 19, July 19 and October 19 of each year.

See “Description of the Shares — Dividends” in this offering memorandum.

**Redemption** . . . . . Except as described in “Description of the Shares — Redemption”, “— Redemption Following Certain Corporate Events”, “— Regulatory Event Redemption” and “— Tax Redemption”, the Shares are redeemable on and after January 19, 2017, at our option, in whole or in part, on any dividend payment date at a redemption price equal to

\$1,000 per share, plus any declared and unpaid dividends to the date of redemption, without accumulation of any undeclared dividends.

**Dividend Payment Restrictions . . . . .**

Under Bermuda law, we may not declare or pay a dividend if there are reasonable grounds for believing that we are, or would after the payment be, unable to pay our liabilities as they become due, or if the realizable value of our assets would thereby be less than the aggregate of our liabilities and our issued share capital and share premium accounts. Further, we may not declare or pay any dividend during any financial year if it would cause us to fail to meet our relevant margins pursuant to the Bermuda Insurance Act 1978 or any succeeding act.

Further, as long as any Shares remain outstanding for any dividend period, unless the full dividends for the latest completed dividend period on all outstanding Shares and Parity Stock (as defined below) have been declared and paid or declared and a sum sufficient for the payment thereof has been set aside:

- (a) no dividend shall be paid or declared on our common shares or any other of our Junior Stock (as defined below), other than a dividend payable solely in our common shares or other Junior Stock; and
- (b) no common shares or other Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by, or on behalf of, us (other than (i) as a result of a reclassification of Junior Stock for or into other Junior Stock or the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock or (ii) through the use of the proceeds of a substantially contemporaneous sale of Junior Stock).

**Catlin Group Limited will give a similar undertaking in relation to its parity and junior obligations in a Deed Poll.**

When dividends are not declared and paid or duly provided for in full on any dividend payment date on the Shares and any shares of Parity Stock, all dividends declared upon the Shares and all such Parity Stock and payable on such dividend payment date shall be paid on a *pro rata* basis so that the respective amounts of such dividends shall bear the same ratio to each other as all declared but unpaid dividends per Share and all Parity Stock payable on such dividend payment date bear to each other. In the case of any Parity Stock having dividend payment dates different from the dividend payment dates pertaining to the Shares, the measurement date for such Parity Stock shall be the dividend payment date falling within the related dividend period for the Shares.

**Ranking . . . . .**

The Shares:

- (a) will rank senior to our Junior Stock with respect to the payment of dividends and distributions upon our liquidation, dissolution or winding-up. “Junior Stock” includes our common shares and any other class or series of our shares that ranks junior to the Shares either as to the payment of dividends or as to the distribution of assets upon any liquidation, dissolution or winding-up; and

(b) will rank at least equally with each other class or series of our shares that ranks equally with the Shares as to dividends and in the distribution of assets on our liquidation, dissolution or winding-up, which we refer to as “Parity Stock”.

<b>Liquidation Rights</b> .....	Upon any voluntary or involuntary liquidation, dissolution or winding up, holders of the Shares and any Parity Stock are entitled to receive from our assets legally available for distribution to shareholders, after satisfaction of indebtedness and other prior-ranking claims, if any, before any distribution is made to holders of common shares or other Junior Stock, a liquidation preference in the amount of \$1,000 per Share, plus declared and unpaid dividends, if any, without accumulation of any undeclared dividends, to the date fixed for distribution. See “Description of the Shares — Liquidation Rights”.
<b>Maturity</b> .....	The Shares do not have any maturity date, and we are not required to redeem the Shares. Accordingly, the Shares will remain outstanding indefinitely, unless and until we decide to redeem them.
<b>Pre-emptive Rights</b> .....	Holders of the Shares will not have pre-emptive rights or subscription rights to acquire more of our shares.
<b>Listing</b> .....	The Shares will not be listed on any securities exchange.
<b>Tax Consequences</b> .....	See “Taxation” in this offering memorandum for a discussion of the tax consequences you should consider carefully before deciding to invest in the Shares.
<b>Ratings</b> .....	The Shares are expected to be rated BBB by Standard & Poor’s and bbb by A.M. Best. A rating is not a recommendation to buy, sell or hold securities and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency.
<b>Use of Proceeds</b> .....	We estimate that, after deducting underwriting discounts and commissions, our net proceeds from this offering will be approximately \$594,000,000. We intend to use the net proceeds of this offering to repay the borrowings under the \$500 million facility agreement dated November 17, 2006 between, among others, Catlin Group Limited, as borrower and guarantor, and J.P. Morgan Europe Limited, as Facility Agent, and to repay up to \$50 million of existing borrowings under Facility A of the Club Facilities and for general corporate purposes.
<b>Governing Law</b> .....	The creation and issue of the Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Bermuda.
<b>Conversion</b> .....	The Shares are not convertible into or exchangeable for any of our other securities or property.
<b>Risk Factors</b> .....	See “Risk Factors” in this offering memorandum for a discussion of factors you should consider carefully before deciding to invest in the Shares.
<b>SVO Classification</b> .....	The Securities Valuation Office, or SVO, of the National Association of Insurance Commissioners, or NAIC, has advised us that it would preliminarily designate the Shares that are offered hereby as pre-

ferred equity. The NAIC classification of an investment directly affects US insurance company investors because it affects the capital required for such investment by such investors, but is not determinative in any way in respect of any other tax, accounting or legal considerations for investors generally. See “Risk Factors — The Shares were preliminarily classified as preferred equity by the SVO of the NAIC”.

**Dividend Disbursing Agent, Transfer Agent and Registrar** ..... The Bank of New York  
**Calculation Agent** ..... The Bank of New York

**SUMMARY FINANCIAL AND OTHER INFORMATION  
FOR CATLIN BERMUDA AND ITS SUBSIDIARIES**

The following table sets forth a summary of historical consolidated financial and other information for the CICL Group as at and for the six months ended June 30, 2006 and 2005 and as at and for the years ended December 31, 2005, 2004 and 2003. The historical consolidated financial information set forth below has been derived from our unaudited and audited consolidated financial statements included elsewhere in this offering memorandum. This consolidated financial information should be read in conjunction with and is qualified by reference to these financial statements and the related notes. The following consolidated statement of operations and consolidated balance sheet data have been prepared in conformity with accounting principles generally accepted in the United States of America, or US GAAP.

	As at and for the Six Months Ended June 30, (unaudited)		As at and for the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(in thousands, except ratios)				
<b>Statement of Operations Information</b>					
Gross premiums written . . . . .	\$ 465,241	\$ 396,602	\$ 737,184	\$ 442,524	\$258,042
Net premiums earned . . . . .	\$ 366,661	\$ 249,531	\$ 551,581	\$ 334,938	\$164,339
Net investment income and net realized (losses)/gains on investments . . . . .	25,475	23,376	47,130	31,481	14,744
Net realized gains/(losses) on foreign currency . . . . .	25,317	(15,444)	(16,325)	10,591	7,860
Other income . . . . .	8,232	17,561	31,877	14,155	13,961
<b>Total revenues</b> . . . . .	<u>425,685</u>	<u>275,024</u>	<u>614,263</u>	<u>391,165</u>	<u>200,904</u>
Losses and loss expenses . . . . .	209,706	131,938	475,687	200,031	93,910
Other expenses . . . . .	84,826	57,726	106,691	75,413	26,737
<b>Total expenses</b> . . . . .	<u>294,532</u>	<u>189,664</u>	<u>582,378</u>	<u>275,444</u>	<u>120,647</u>
Income before income taxes . . . . .	131,153	85,360	31,885	115,721	80,257
Income tax benefit/(expense) . . . . .	852	(7,814)	(12,113)	(2,237)	(142)
<b>Net income</b> . . . . .	<u>\$ 132,005</u>	<u>\$ 77,546</u>	<u>\$ 19,772</u>	<u>\$ 113,484</u>	<u>\$ 80,115</u>
<b>Balance Sheet Information</b>					
Total investments and cash . . . . .	\$1,250,879	\$ 954,397	\$1,101,908	\$ 909,614	\$545,541
Total assets . . . . .	3,111,555	2,082,725	2,376,152	1,720,227	931,579
Unpaid losses and loss expenses . . . . .	942,221	439,550	750,947	342,649	129,533
Unearned premiums . . . . .	454,647	360,405	369,353	237,675	145,244
Total stockholder's equity . . . . .	1,078,986	962,912	889,574	896,359	595,971
<b>Other Information</b>					
Loss ratio(1) . . . . .	57.1%	52.9%	86.2%	59.7%	57.1%
Expense ratio(2) . . . . .	23.1%	23.1%	19.3%	22.4%	16.3%
Combined ratio(3) . . . . .	80.2%	76.0%	105.5%	82.1%	73.4%
Tax rate(4) . . . . .	N/A	9.2%	38.0%	1.9%	0.2%

(1) Calculated as losses and loss expenses divided by net premiums earned

(2) Calculated as the total of policy acquisition costs and other expenses, less financing and amortization expenses, divided by net premiums earned

(3) Total of loss ratio plus expense ratio

(4) Calculated as income tax expense divided by income before income taxes

## RISK FACTORS

*You should carefully consider the following factors and other information in this offering memorandum before deciding to invest in the Shares. Some of these factors apply to the insurance business generally, while others are specific to Catlin Bermuda, the CICL Group or the Catlin Group. The risks and uncertainties described below are not the only ones facing us or the Catlin Group. Additional risks and uncertainties not presently known or risks that are currently deemed immaterial may also impair our business operations and those of the Catlin Group. If any of the following risks actually occurs, the CICL Group's and the Catlin Group's business, financial condition or results of operations could be materially adversely affected. In that event, the value of the Shares could decline, and you might lose all or part of your investment.*

### **Risks Relating to the CICL Group, the Catlin Group and the Insurance Industry**

The Catlin Group has in place a structure of systems, controls, and operating procedures that are used across all operating platforms, including the CICL Group. Intra-Group reinsurance arrangements transfer to us a large portion of the underwriting risk from the other underwriting subsidiaries of the Catlin Group. As a result, the risks facing the Catlin Group may also affect the CICL Group. However, investors in the Shares will have recourse only to the assets of Catlin Bermuda and not to the assets of the Catlin Group. The following discussion includes risks that apply to the Catlin Group as a whole, as well as risks that are particular to Catlin Bermuda and the CICL Group. For more information on the systems, controls and operating procedures used by all of the Catlin Group's operating platforms, see "Description of the Catlin Group". For more information on intra-group reinsurance arrangements, see "Description of Catlin Bermuda and the CICL Group — Related Party Reinsurance Contracts" and "Related Party Transactions".

***The underwriting of insurance and reinsurance risks is, by its nature, a high-risk business. Earnings can be volatile and losses might be incurred which would have the effect of reducing shareholders' funds and our ability to pay dividends on the Shares***

The assumption of insurance and reinsurance risks is, by nature, a high-risk business. It is not possible to predict with certainty whether a single risk or a portfolio of risks will result in a loss, or the timing and severity of any loss that does occur. As a result, earnings of the Catlin Group and the CICL Group may be volatile. Further, the past results of the Catlin Group and the CICL Group, as well as those of Wellington, are a historical record and may not necessarily be a reliable guide to future prospects as, among other things, previously profitable business could become unprofitable; the nature of business written or market conditions could change; reserves created against future claims could prove to be inadequate; a reinsurance program could be insufficient or the Catlin Group's reinsurers could fail or refuse to pay.

It is inherently difficult to forecast the Catlin Group's or CICL Group's performance trends and returns. Not only do underwriting results change but investment returns, which form an important part of the financial return to the Catlin Group, are also affected by, among other things, interest rates, exchange rates, taxation changes and other economic events that are outside the Catlin Group's control. Losses may impact Catlin Bermuda's ability to pay dividends on the Shares.

***The occurrence of catastrophic events could have a material adverse effect on the Catlin Group's and Catlin Bermuda's financial results and financial condition and on Catlin Bermuda's ability to pay dividends on the Shares***

The Catlin Group's and the CICL Group's property and casualty insurance and reinsurance contracts cover catastrophic events such as hurricanes, windstorms, hailstorms, earthquakes, volcanic eruptions, fires, industrial explosions, freezes, floods, riots, acts of terrorism and other natural or man-made disasters. Because the Catlin Group and the CICL Group underwrite property and casualty insurance and reinsurance and thereby have large aggregate exposures to natural and man-made disasters, their loss experience generally will include infrequent events of great severity. These included, in 2005, Hurricanes Katrina, Rita and Wilma, which, in the case of Katrina, led to the largest insured loss in history. The frequency and severity of catastrophe losses are inherently unpredictable. Increases in the values and geographic concentrations of insured property and the effects of

inflation have resulted in increased severity of industry losses in recent years and the Catlin Group expects that those factors will increase the severity of catastrophe losses in the future. The volatility is compounded by accounting principles that do not permit the Catlin Group to reserve for such catastrophic events until they occur. In addition, depending on the nature of the claim, the speed with which claims are made and the terms of the policies affected, the Catlin Group may be required to make large claims payments upon short notice. Consequently, losses from catastrophic or extreme events are likely to have a material adverse effect on the Catlin Group's and Catlin Bermuda's results of operations or financial condition and could impact Catlin Bermuda's ability to pay dividends on the Shares.

***The insurance business is historically cyclical and highly competitive, and as a result the Catlin Group and the CICL Group expect to experience highly competitive periods with excess underwriting capacity and unfavorable premium rates***

The insurance and reinsurance industry has historically experienced significant fluctuations in pricing and operating results due to competition, frequency or severity of catastrophic events, levels of capacity, general economic conditions and other factors. Insurance and reinsurance capacity is related to prevailing premium rates, the level of insured losses and the level of industry surplus that, in turn, might fluctuate in response to changes in rates of return on investments being earned in the insurance and reinsurance industry and other factors. As a result, the insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels.

Following the extreme hurricane-related losses from 2005, there has been substantial new capital entering into the insurance industry. This increase in capital, added to retained earnings from a period of profitable underwriting conditions, could suppress pricing, encourage less favorable policy terms and dilute demand for some or all of the Catlin Group's or CICL Group's products.

In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers might affect the cycles of the insurance and reinsurance business significantly. The Catlin Group and Catlin Bermuda expect to continue to experience the effects of this cyclicity, which, during down periods, could harm their financial condition, profitability or cash flows and Catlin Bermuda's ability to pay dividends on the Shares.

In the reinsurance business, other financial institutions are now able to offer services similar to those that the Catlin Group and the CICL Group offer. Financial institutions have also created alternative capital market products, such as reinsurance securitization, that compete with reinsurance products. Such alternative products might be perceived to be more beneficial for some ceding companies than reinsurance offered by reinsurance companies and could result in lower demand for certain of the Catlin Group's and CICL Group's products.

Some of the Catlin Group's and CICL Group's competitors have greater name and brand recognition than the Catlin Group or CICL Group companies. Many of them also have more (in some cases substantially more) capital and greater marketing and management resources, and might offer a broader range of products and more competitive pricing than the Catlin Group or the CICL Group does.

The Catlin Group's and CICL Group's competitive position is based on many factors, including its perceived overall financial strength, ratings assigned by independent rating agencies, geographic scope of business, client relationships, premiums charged, contract terms and conditions, products and services offered (including the ability to design customized programs), speed of claims payment, reputation, experience and qualifications of employees and local presence. If competition limits the Catlin Group's or CICL Group's ability to write new business at adequate rates, their profitability and return on capital could be adversely affected.

***The failure of any of the loss limitation methods employed by the Catlin Group or the CICL Group could have a material adverse effect on the Catlin Group's or Catlin Bermuda's financial condition or their results of operations and on Catlin Bermuda's ability to pay dividends on the Shares***

The Catlin Group and the CICL Group seek to limit their exposure to insurance and reinsurance losses through a number of loss limitation methods, including internal risk management and security procedures, and through the purchase of outwards reinsurance. The underwriting processes employed by the Catlin Group and the CICL Group includes the setting and monitoring of underwriting guidelines, the monitoring and control of risks written (including peer review) and the ongoing review of premium rate adequacy. See “Description of the Catlin Group — Underwriting”. Underwriting is a matter of judgment involving important assumptions about matters that are inherently unpredictable and beyond the Catlin Group's and CICL Group's control and for which historical experience and probability analysis might not provide sufficient guidance.

The Catlin Group and the CICL Group seek to limit their loss exposure by various means, including on occasion by writing coverage on an excess-of-loss basis, setting appropriate per-occurrence and/or aggregate limits, limiting aggregate exposures, excluding certain risks and otherwise restricting the terms and conditions they offer. Various provisions in the Catlin Group's and CICL Group's policies, such as limitations or exclusions from coverage or choice of forum, might not be enforceable in the manner the Catlin Group or the CICL Group intends due to, among other things, disputes relating to coverage and choice of legal forum.

In addition, the Catlin Group and the CICL Group seek to limit their loss exposure by geographic diversification. Geographic zone limitations involve significant underwriting judgments, including the definition of probable maximum losses, specification of the areas constituting the zones and the inclusion of a particular policy within a particular zone's limits.

Notwithstanding the risk mitigation and underwriting controls employed, one or more catastrophic or other loss events could result in claims that substantially exceed the Catlin Group's or CICL Group's expectations, which could have a material adverse effect on their financial condition or results of operations, possibly to the extent of eliminating the Catlin Group's and CICL Group's shareholders' equity, statutory surplus and ability to pay dividends.

***If actual losses exceed the Catlin Group's or CICL Group's loss and loss expense reserves, the financial condition and results of operations, and Catlin Bermuda's ability to pay dividends on the Shares, could be significantly adversely affected***

Loss and loss expense reserves represent estimates involving legal analysis and interpretation, and actuarial and statistical projections of the Catlin Group's and CICL Group's expectations of the ultimate settlement and administration costs of claims incurred, including those incurred but not reported (IBNR). The Catlin Group and the CICL Group utilize both proprietary and commercially available actuarial models as well as historical industry loss development patterns to establish appropriate loss and loss expense reserves. Unforeseen losses, the type and magnitude of which the Catlin Group or the CICL Group cannot predict, or losses which exceed the amount estimated, may emerge in the future. Actual losses and claim expenses paid may deviate, perhaps substantially, from the reserve estimates reflected in the Catlin Group's or Catlin Bermuda's financial statements.

In addition, in relation to its third party reinsurance business, the CICL Group does not separately evaluate each of the individual risks assumed under reinsurance treaties. As a result, the CICL Group is dependent on the original underwriting and reserving decisions made by ceding companies. The CICL Group is therefore subject to the risk that the third party ceding companies might not have adequately evaluated the risks to be reinsured and that the premiums ceded might not adequately compensate the CICL Group for the risks it assumes or that claims may not have been adequately reserved or notified by the cedent.

To the extent that the Catlin Group purchases reinsurance, the uncertainties of estimating loss reserves are exacerbated by the significant periods of time that may elapse between the occurrence of an insured loss, the payment by the relevant member of the Catlin Group of claims in respect of that loss and the subsequent indemnification by the reinsurer (or retrocessionaire). The Catlin Group seeks to mitigate this exposure by purchasing reinsurance and retrocessional protections from parties whom it believes will have the financial

resources to respond to claims. However, if that proves not to be the case, the relevant member of the Catlin Group may be required to increase its reserves at the time it identifies a meaningful risk of default with a corresponding reduction in net income and this could have an adverse impact on profitability.

Under US GAAP, the Catlin Group and the CICL Group are not permitted to establish loss and loss expense reserves until an event occurs which might give rise to a loss. Once the Catlin Group or CICL Group becomes aware of such an event, reserves are established based upon estimates of the total losses incurred by the insured or the ceding insurers and an estimate of the portion of such loss the Catlin Group or the CICL Group has insured or reinsured. As a result, only loss and loss expense reserves applicable to losses incurred up to the reporting date (including IBNR) may be set aside, with no allowance for the provision of a contingency reserve to account for expected future loss events. Losses arising from future events will be estimated and recognized at the time the loss event is notified.

It is possible that losses in respect of events that have occurred could exceed the Catlin Group's or CICL Group's loss and loss expense reserves and have a material adverse effect on results of operations in a particular period, their financial position or their ability to pay dividends.

***The Catlin Group and the CICL Group are exposed to further losses from the US hurricane events of 2005***

As at June 30, 2006, the Catlin Group estimated that the financial impact of the three hurricanes (Katrina, Rita and Wilma) that caused extensive damage in the Gulf of Mexico and the south-eastern United States during the second half of 2005 would be a gross loss of approximately \$639 million and a net loss, after reinsurance recoveries, of approximately \$360 million. These estimated amounts have been accounted for in the Catlin Group's and Catlin Bermuda's profit and loss accounts as shown in the financial statements included elsewhere in this offering memorandum.

The Catlin Group has recently acquired Wellington pursuant to a recommended offer made by Catlin Group Limited for the entire issued and to be issued share capital of Wellington. The Catlin Group therefore now is exposed to risks associated with the Wellington Group. Wellington's Syndicate 2020 provides capacity to both the direct and reinsurance markets that cover assets both onshore and offshore in the geographical area that was impacted by the 2005 hurricanes in the US. As at June 30, 2006, the Wellington Group's share of the claims is estimated to be £187 million (net of reinsurance and including reinstatement premiums). However, it is likely that the losses arising out of the 2005 hurricanes in the US will only be finally determined after several years.

The Wellington Group's reinsurance protection for hurricane Katrina is now exhausted and therefore its share of any further deterioration in the gross ultimate loss recorded by Syndicate 2020 beyond the estimate referred to above will impact the Catlin Group's results on a pound for pound basis. Reinsurance protection for hurricanes Rita and Wilma in respect of property insurance and reinsurance classes is available; however, the whole account marine reinsurance programme protecting the hurricane Rita loss is exhausted and therefore the Wellington Group's share of any deterioration in the ultimate gross loss arising from classes protected by this programme will also impact the Catlin Group's result on a pound for pound basis.

Due to the normal course of claims resolution and payment, many of the Catlin Group's, the Wellington Group's and the CICL Group's exposures from these events are not yet fully settled. Hurricane Katrina is the largest insured loss in history and claims related to Katrina are still subject to uncertainty, both in respect of the amount of the original loss and the impact of claims on the reinsurance market. As a result, there is a risk that the Catlin Group's, the Wellington Group's and the CICL Group's final liability from these hurricane events will differ significantly from the loss currently estimated.

A substantial portion of the Catlin Group's and a portion of the CICL Group's gross exposure to these events is reinsured. Should there be any significant failure of reinsurers to meet claims on time or at all, the Catlin Group will still be obliged to respond under the original insurance contracts, and its net losses will be increased to the extent of any such failure, which could have a material adverse effect on the Catlin Group's results of operations and/or liquidity.

***The Catlin Group has significantly expanded its operations in recent years and might not effectively manage the growth of its operations***

In recent years the Catlin Group has significantly expanded its operations through the commencement of Catlin Bermuda's operations in Bermuda in 2002, the commencement of Catlin UK and in the United Kingdom in early 2004. Members of the Catlin Group have recently opened offices in Cologne, Antwerp, Guernsey, San Francisco, Atlanta, New York, Calgary, Hong Kong, Toronto and Sydney. Catlin UK has also established various regional offices throughout the United Kingdom. These expansions have increased the Catlin Group's gross premiums written and number of employees. The Catlin Group's ability to manage its growth effectively will require it to continue to enhance its operations, financial, management and underwriting controls, reporting systems, policies and procedures, and to train, motivate and manage its employees and, as required, to implement new management information and control systems. There can be no assurance that the Catlin Group will be able to enhance its management information and control systems in an efficient and timely manner or that, if implemented, such enhancements will be adequate to support the Catlin Group's expanded operations. Any inability of the Catlin Group to manage successfully its expansion could have a material adverse effect on its business, results of operations and financial condition.

As part of the Catlin Group's rapid growth, it will need to be closely familiar with the risk profile of its expanded operations and manage a more complex allocation of capital resources. If the Catlin Group is unable to evaluate properly the relevant risks and utilize appropriately its economic capital, the Catlin Group's business, results of operations and financial condition could be materially adversely affected.

***The Catlin Group's and CICL Group's reliance on binding authorities subjects it to certain risks***

A proportion of the Catlin Group's business, and some of the CICL Group's business, is generated by third-party coverholders underwriting pursuant to binding authorities, under which authority coverholders write business on the Catlin Group's or CICL Group's behalf. There is no guarantee that, notwithstanding the risk evaluation and control procedures in place, a coverholder will observe or comply with the terms of its binding authority, including the parameters within which it may underwrite on the Catlin Group's or CICL Group's behalf. A coverholder that exceeds its authority to underwrite could expose the Catlin Group or CICL Group to unanticipated underwriting losses. For more information on business written pursuant to binding authorities, please refer to "Description of the Catlin Group — Distribution and Marketing — Third Party Coverholders".

***Interest rate changes and the Catlin Group's investment performance might affect its financial condition and its ability to conduct business and pay dividends and Catlin Bermuda's ability to pay dividends on the Shares***

The Catlin Group holds significant investments to support its liabilities and its profits will be affected by the returns achieved on its invested assets. The Catlin Group's invested assets contain interest sensitive instruments such as bonds, which could be adversely affected by changes in interest rates. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the Catlin Group's control. Although the Catlin Group attempts to manage the risks of investing and borrowing in a changing interest rate environment, it might not be able to mitigate interest rate sensitivity effectively, and a significant increase in rates could have a material adverse effect on the Catlin Group's book value. Over the past year, rising US interest rates have caused a decline in the market value of a number of the Catlin Group's interest-sensitive assets.

The Catlin Group is also exposed to interest rate changes by virtue of the amounts outstanding under its credit facilities as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources". Borrowings under its credit facilities bear interest at rates that may fluctuate (including where rates are linked to LIBOR). Increases in interest rates would adversely affect the Catlin Group's income and the cash flow that would be available for the payment of interest and principal under its credit facilities and could affect the ability of Catlin Bermuda to pay dividends on the Shares.

***If reinsurance arrangements are not available under acceptable terms, the financial condition and results of operations of the Catlin Group could be adversely affected***

From time to time, market conditions have limited, and in some cases have prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance that they consider adequate for their business needs. For example, following the events of the 2005 hurricane season in the United States, terms and conditions in the reinsurance and retrocessional markets generally became less attractive for purchasers of reinsurance as the supply contracted, terms tightened and premium rates increased. The Catlin Group believes it has been able to arrange appropriate reinsurance for 2006 and will attempt to do so for 2007. However, should this not be the case or should a similar market disruption occur in the future, the Catlin Group might not be able to obtain its desired amounts of reinsurance or retrocessional reinsurance. In addition, even if the Catlin Group is able to obtain such reinsurance or retrocessional reinsurance, it might not be able to negotiate terms that it deems appropriate or acceptable in terms of price or scope of coverage or obtain such reinsurance or retrocessional reinsurance from entities with satisfactory creditworthiness.

Since the Catlin Group purchases most of its reinsurance cover on a calendar year basis, there is a mismatch between the risk exposure inwards which runs across a number of calendar years, and its reinsurance program. The Catlin Group therefore runs the significant risk of not being able to purchase sufficient reinsurance (either at all or at an acceptable price) to cover the unexpired portion of risks, with the result that a large loss or losses might not be protected by any reinsurance. Although the Catlin Group has in the past been able to purchase suitable reinsurance, there remains a risk that it may not be able to do so in the future.

***Reinsurance purchased by the Catlin Group may not be adequate for actual loss experience***

The Catlin Group follows the customary insurance practice of reinsuring and retroceding with other insurance and reinsurance companies a portion of the risks under the insurance and reinsurance contracts that it writes. These reinsurance and retrocession arrangements are maintained to protect the Catlin Group against the severity of losses on individual claims and unusually serious occurrences in which a number of claims produce a large aggregated loss. The amount of coverage purchased is determined by the Catlin Group's risk appetite together with the price, quality and availability of such coverage. Coverages purchased for one year will not necessarily conform to purchases for another year. There can be no assurances that the Catlin Group's reinsurance and retrocessional reinsurance protection will be sufficient for all eventualities.

***The Catlin Group is subject to the credit risk of its reinsurers***

Reinsurance recoverables are the most significant credit risk to the Catlin Group. As of December 31, 2005, reinsurance recoverables for the Catlin Group totaled \$607.4 million, representing approximately 16% of the Catlin Group's total assets and reinsurance recoverables for the CICL Group totaled \$41.5 million, representing approximately 2% of the CICL Group's total assets. As of June 30, 2006, reinsurance recoverables for the Catlin Group totaled \$522.4 million, representing approximately 12% of the Catlin Group's total assets, and reinsurance recoverables for the CICL Group totaled \$50.5 million, representing approximately 2% of the CICL Group's total assets. As a result of the completion of the Wellington offer, the Catlin Group now is exposed also to the Wellington Group's reinsurance recoverables. As at June 30, 2006, such reinsurance recoverables totaled £623.3 million, representing approximately 29% of Wellington's total assets. A reinsurer's insolvency, or inability or refusal to make payments under the terms of any of its agreements with a member of the Catlin Group or Catlin Bermuda, could have a material adverse effect on the Catlin Group because that member of the Catlin Group and Catlin Bermuda remain liable to their insureds.

Although reinsurance does not discharge a Catlin Group or CICL Group member from their primary obligation to pay under an insurance policy for losses insured, or under a reinsurance agreement for losses assumed, reinsurance does make the assuming reinsurer or retrocessionaire liable to the relevant Catlin or CICL Group member for the reinsured or retroceded portion of the risk. Collectability of reinsurance and retrocessions is largely a function of the solvency of reinsurers. The Group Reinsurance Security Committee assesses the security represented by individual reinsurers using both in-house procedures and market and financial information supplied by a third-party consultant. Despite these measures, a reinsurer's insolvency or inability or

unwillingness to make payments under the terms of a reinsurance or retrocession arrangement could have a material effect on the Catlin Group's financial condition or results of operations.

***Certain of the Catlin Group's underwriting subsidiaries and the Catlin Syndicate and Wellington Syndicate are rated by independent rating agencies, and a decline in these financial strength ratings could affect their standing among brokers, agents and customers and cause their sales and earnings to decrease***

Competition in the types of insurance and reinsurance businesses that the Catlin Group, the Wellington Group and the CIGL Group underwrite is based on many factors, including the perceived financial strength of the insurer or reinsurer and ratings assigned by independent rating agencies. The Catlin Group's underwriting subsidiaries are rated by A.M. Best and Standard & Poor's. The objective of these rating systems is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to its policyholders.

A.M. Best maintains a letter scale rating system ranging from "A++" (Superior) to "F" (In Liquidation). In 2005, A.M. Best affirmed the A (Excellent) ratings of Catlin Bermuda and the Catlin Syndicate. Upon its establishment in 2005, Catlin UK received an A (Excellent) rating. A.M. Best has recently placed the financial strength and issuer credit ratings of Catlin Bermuda and other Catlin Group companies under review with negative implications, and Catlin is actively engaged with A.M. Best to alleviate any concerns that A.M. Best may have. A.M. Best has announced that it will complete its review in the first quarter of 2007. Standard & Poor's maintains a letter scale rating from "AAA" (Extremely Strong) to "R" (Regulatory Action). In May 2006, Standard & Poor's assigned a financial strength rating of "A-" to both Catlin Bermuda and Catlin UK. Standard & Poor's assigned an interactive Lloyd's Syndicate Assessment of "4-" (low dependency) to the Catlin Syndicate. The Wellington Syndicate is rated A (Excellent) by A.M. Best, 3pi by Standard & Poor's and A2 by Moody's. Wellington Specialty Insurance Company is rated A- (Excellent) by A.M. Best. There is no guarantee that these ratings will be maintained in the future, or that the ratings of Catlin Bermuda and other Catlin Group companies will not be affected adversely by the acquisition of Wellington. A downgrade in any of these ratings would adversely affect the Catlin Group's or Catlin Bermuda's competitive position in the insurance and reinsurance industries and make it more difficult to market its products. A downgrade could, therefore, result in a substantial loss of business as insureds, ceding companies, agents and brokers that place business with Catlin Bermuda or other Catlin Group companies might move to other insurers and reinsurers with higher ratings or insist on less favorable terms as a condition of continuing to do business. A credit rating downgrade might also give rise to a right of termination or amendment of the Catlin Group's credit facilities and/or certain reinsurance contracts written by members of the Catlin Group.

The majority of cedents and brokers maintain a listing of acceptable reinsurers, generally based upon credit rating. Failure to qualify for such lists of acceptable reinsurers would seriously reduce the volumes of business presented to Catlin Bermuda's reinsurance underwriters. In addition, the need to maintain a high rating could require additional capital in the future, particularly if the insurance market softens.

***The Catlin Group's and CIGL Group's operating results could be adversely affected by currency fluctuations***

The Catlin Group and the CIGL Group are exposed to currency fluctuations, predominantly among US dollars, pounds sterling, Canadian dollars and euros, which could affect their earnings. The Catlin Group and Catlin Bermuda operate in a number of countries and therefore the results of their operations are subject to both currency transaction and translation risk.

Currency transaction risk arises from the mismatch of cash flows due to currency exchange fluctuations. For example, the UK operations incur expenses in pounds sterling but generate revenues in a number of other currencies in addition to sterling, predominantly US dollars and euros. These transactional exposures are managed by converting sufficient cash flows arising in currencies other than pounds sterling into pounds sterling, for example, including through the use of spot or forward exchange contracts and option contracts, to satisfy pounds sterling denominated expenses.

Wellington has progressively reduced its investment in shares of Aspen Insurance Holdings Limited (“Aspen”), which is a Bermuda based insurance holding company with operations in the insurance and reinsurance markets in London, Bermuda and the United States of America, to zero. Wellington holds options to acquire approximately 3.8 million further Aspen shares (representing approximately 3.6 per cent. of Aspen’s issued share capital). The Wellington Group has hedged the sterling value of the Aspen shares it could acquire under the options it has been granted by the use of currency options. Other than as described in this offering memorandum, no members of the Catlin Group currently engage in any hedging transactions.

Translation risk arises because the Catlin Group and CIGL Group report in US dollars, but a significant portion of the underlying premiums, reserves, operating expenses and acquisition costs are denominated in other currencies. A portion of the Catlin Group’s loss reserves and investments is also in non-US currencies. The Catlin Group might, from time to time, experience losses resulting from fluctuations in the values of these currencies against the US dollar, which could adversely affect its reported results. To minimize exposure to changing rates of exchange, the Catlin Group seeks to match assets and liabilities by major currency. However, to the extent that there is a mismatch in net assets, the Catlin Group is exposed to currency fluctuations that could adversely affect the total profit/(loss) recognized for the financial period. To the extent that the records of subsidiaries might be maintained in currencies other than US dollars, the Catlin Group is subject to additional translation risk since, on consolidation, movements in currency exchange rates would affect its operational results.

***The terms of the credit facilities available to the Catlin Group impose restrictions on operations, and may restrict growth, result in a competitive disadvantage and adversely affect its ability to conduct business***

The terms of the credit facilities available to the Catlin Group contain numerous operating and financial covenants. These covenants limit the Catlin Group’s ability, among other things, to:

- make acquisitions and disposals;
- make investments;
- pay dividends and make capital expenditures; and
- borrow more money for operations or capital in the future.

These restrictions could reduce the Catlin Group’s flexibility to respond to changing business and economic conditions, including increased competition in the insurance industry, and could prevent the Catlin Group from expanding the business. The Catlin Group’s credit facilities are secured by a combination of fixed and floating charges. Further information on the Catlin Group’s credit facilities is given in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources”.

Compliance with financial covenants in the Catlin Group’s credit facilities presents a risk that alternative financing may be required if covenants are breached. The financial covenants in the Catlin Group’s credit facilities contain a number of requirements, in particular, that the Catlin Group’s consolidated net worth and consolidated borrowings to consolidated net worth remain above agreed levels and that Standard & Poor’s and A.M. Best’s ratings of Catlin Bermuda do not fall below BBB or B++ respectively. These requirements represent considerable constraints as they add complexity to capital management and present a risk that alternative financing could be required if the covenants are breached.

***The Catlin Group or CIGL Group might require additional capital in the medium or long-term future that might not be available or might only be available on unfavorable terms***

The Catlin Group’s and CIGL Group’s future capital requirements depend on many factors, including loss experience, regulatory changes to capital requirements, the actions of various rating agencies and the Catlin Group’s and CIGL Group’s ability to write business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that current capital and the funds generated by the Shares are insufficient to fund future operating requirements, the Catlin Group or CIGL Group might need to raise

additional funds through financings or curtail its growth and reduce its assets. Any equity or debt financing, if available at all, could be on terms that are not favorable to the Catlin Group or CICL Group. If the Catlin Group or the CICL Group cannot obtain adequate capital on favorable terms or at all, its business, financial condition or operating results could be adversely affected. A more detailed explanation of the regulatory environment in which the Catlin Group and the CICL Group operate is set out in “Regulation”.

***The Catlin Group and the CICL Group outsource a number of internal functions***

The Catlin Group and the CICL Group make extensive use of outsourcing to third parties to provide a number of functions, including certain of their loss and claims adjusting, claims payment, premium collection and bookkeeping functions, as well as investment management and investment accounting. The Catlin Group and the CICL Group must effectively monitor and audit the performance of these third parties to ensure high standards of delivery. To the extent that these outsourcing arrangements impact the FSA-regulated entities within the Catlin Group they are also subject to the FSA’s rules and guidance on outsourcing by regulated firms. In the event that the FSA were to determine that the performance of these third parties, or any other aspect of the arrangements, was in some way unsatisfactory, the Catlin Group or CICL Group could be required to alter its existing arrangements or enter into arrangements with alternative service providers. There can be no assurance that such a change would not disrupt the Catlin Group’s or CICL Group’s operations, or that the Catlin Group or CICL Group would be able to find a suitable service provider or enter into new outsourcing arrangements on acceptable commercial terms. In addition, as regards the FSA-regulated entities within the Catlin Group, to the extent that any such change to existing outsourcing arrangements or the entering into of new arrangements were to be regarded as “material”, appropriate prior notification would have to be made to the FSA by those regulated entities in line with the FSA rules and guidance on outsourcing by regulated firms. A failure or delay in providing any such notice could be cause for sanction by the FSA.

***The Catlin Group’s or CICL Group’s computer and data processing systems could fail, be perceived to be insecure or be subject to third party claims, which could adversely affect its business and damage its customer relationships***

The Catlin Group’s and CICL Group’s business is highly dependent upon the successful and uninterrupted functioning of its computer and data processing systems. The Catlin Group has developed a proprietary underwriting system and data warehouse known as “the FRAME” which is used by most of the Catlin Group’s operating subsidiaries. The Catlin Group and the CICL Group rely on these systems for critical elements of their business process, including, for example, entry and retrieval of individual risk details, premium and claims processing, monitoring aggregate exposures and financial and regulatory reporting. The Catlin Group has trained staff committed to the development and maintenance of these systems. However, the failure of these systems could interrupt the Catlin Group’s or CICL Group’s operations or materially impact their ability to conduct business. The Catlin Group and the CICL Group rely on their own staff to repair any flaws or damage to the system and, if sustained or repeated, a system failure could result in the loss of existing or potential business relationships, or compromise the Catlin Group’s or CICL Group’s ability to pay claims in a timely manner or give rise to regulatory implications, which could result in a material adverse effect on the Catlin Group’s or CICL Group’s financial condition and results of operations. The Catlin Group’s insurance might not adequately compensate it for material losses that could occur due to disruptions in its service as a result of computer and data processing systems failure.

The Catlin Group and the CICL Group retain confidential information regarding their business dealings in computer systems. Therefore, a security breach of the Catlin Group’s or CICL Group’s computer systems could damage their reputation or result in liability. The Catlin Group or the CICL Group might be required to spend significant capital and other resources to protect against such breaches or to alleviate problems caused by such breaches. Any publicized compromise of security could deter transactions involving the transmission of confidential information. Despite existing security measures, the Catlin Group’s and the CICL Group’s data infrastructure could still be vulnerable to physical break-ins, computer viruses, programming errors, infiltration or attacks by third parties or similar disruptive problems, any of which could have a material adverse effect on the Catlin Group’s or Catlin Bermuda’s financial condition and results of operations.

***The protection provided by the US Terrorism Risk Insurance Act is uncertain***

The US Terrorism Risk Insurance Act, or TRIA, requires the Catlin Group and the CICL Group in certain circumstances to offer coverage against acts of terrorism to US insureds. TRIA also imposes various administrative and record-keeping obligations on the Catlin Group and the CICL Group. In exchange, the US government is required to reimburse insurers for certain losses arising out of certain terrorist acts in accordance with the terms of TRIA. No terrorist events have occurred since the passage of TRIA that would trigger its application, so there remains considerable uncertainty as to how the act would operate in practice. If in the event of a qualifying terrorist attack the US government did not provide reimbursement to the Catlin Group or the CICL Group in accordance with the Catlin Group's expectations, the Catlin Group's financial results could be detrimentally impacted.

TRIA was originally scheduled to expire on December 31, 2005, but in 2005 was extended until December 31, 2007. There can be no assurance that TRIA will be continued beyond 2007.

***The Catlin Group and the CICL Group depend on brokers and coverholders to distribute their products; the loss of business provided by brokers and coverholders could have a material adverse effect***

The Catlin Group and the CICL Group rely heavily on brokers to distribute their products. Brokers are independent and therefore no broker is committed to recommend or sell the products of the Catlin Group or the CICL Group. The Catlin Group's and CICL Group's relationships with their brokers are important, and the failure, inability or unwillingness of brokers to market the Catlin Group's or CICL Group's products could have a material adverse effect on their financial performance.

In addition, the Catlin Group and the CICL Group use a large number of coverholders to distribute their products. Coverholders could, subject to applicable notice provisions, cease doing business with the Catlin Group or Catlin Bermuda at any time. The loss or deterioration of one or more of these relationships could adversely affect the Catlin Group's or Catlin Bermuda's financial condition. The Catlin Group and the CICL Group might not be successful in maintaining their current relationships with their significant coverholders, which could have a material adverse effect on their financial condition or their results of operations.

In addition, the brokers and coverholders present a credit risk to the Catlin Group and the CICL Group. In accordance with industry practice, the Catlin Group and the CICL Group generally pay amounts owed on claims under their insurance and reinsurance contracts to brokers, and these brokers, in turn, pay these amounts to the clients that have purchased insurance or reinsurance from the Catlin Group or CICL Group. If a broker fails to make such a payment, it is highly likely that the Catlin Group or CICL Group will be liable to the client for the deficiency because of local laws or contractual obligations. Likewise, in certain jurisdictions, when the insured or ceding insurer pays premiums for these policies to brokers for subsequent payment to the Catlin Group or CICL Group, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to the Catlin Group or CICL Group for those amounts, whether or not they actually received the premiums from the broker. Consequently, the Catlin Group and the CICL Group assume a degree of credit risk associated with brokers around the world with respect to most of their insurance and reinsurance business.

***The European Competition Commission is conducting an inquiry into business insurance***

In June 2005, the European Competition Commission opened its sector inquiry into business insurance. The inquiry is focused on removing barriers to entry within the European business insurance market and removing anti-competitive practices. This is likely to involve a review of the use of standard policy provisions, the role of insurers' associations and other agreements between insurance and reinsurance market participants. The Commission is expected to publish its findings in the first quarter of 2007. It is possible that individual enforcement action may then occur. There can be no assurance that the outcome will not have an adverse impact on the Catlin Group and/or CICL Group.

***The regulatory systems under which the Catlin Group and the CICL Group operate, and potential changes to these systems, could have a material adverse effect on their business***

The conduct of insurance and reinsurance business activities is subject to legal requirements and governmental and quasi-governmental supervision in the various jurisdictions in which the Catlin Group and the CICL Group operate.

The Catlin Group's and the CICL Group's ability to conduct insurance and reinsurance business in different countries generally requires the holding and maintenance of various licenses, permissions or authorizations, and compliance with rules and regulations promulgated from time to time in these jurisdictions.

A failure to comply with rules and regulations could, in any jurisdiction, lead to, among other things, disciplinary action, the imposition of fines or the suspension or revocation of licenses, permissions or authorizations to conduct the Catlin Group's or CICL Group's business in that jurisdiction, which could have a material adverse effect on the continued conduct of business in a particular jurisdiction. Among other things, insurance laws and regulations applicable to members of the Catlin Group could:

- require the maintenance of certain solvency levels;
- regulate transactions, including transactions with affiliates and intra-group guarantees;
- in certain jurisdictions, restrict the payment of dividends or other distributions;
- require the disclosure of financial and other information to regulators; or
- establish certain minimum operational requirements or customer service standards such as the timeliness of finalized policy language ("contract certainty") or lead time for notice of non-renewal or changes in terms and conditions.

Over the past few years, the insurance industry in the United States, the United Kingdom, Bermuda, Europe and other markets in which the Catlin Group and Wellington Group operate has been subject to increased scrutiny by regulatory bodies, and such increased scrutiny can be expected to continue in the future. This scrutiny has led to changes in certain legal and regulatory provisions which govern the operations of the Catlin Group and the CICL Group, and it can be expected that further reviews and changes to applicable laws and regulations will occur in the future. Neither the Catlin Group nor the CICL Group can predict the effect that any proposed or future law or regulation might have on their financial condition or results of operations. It is possible that the CICL Group or any of the other Catlin Group entities could be adversely affected by changes in applicable laws or regulations or in their interpretation or reinforcement.

In particular, changes in regulatory capital requirements in the United States, the United Kingdom or Bermuda would impact upon the level of capital reserves required to be maintained by individual Catlin Group entities or by the Catlin Group.

The Council of Lloyd's has certain wide discretionary powers to regulate members of Lloyd's. It can, for instance, vary the method by which the capital solvency ratio is calculated or the investment criteria applicable to funds at Lloyd's. Any such variation might affect the Catlin Syndicate's and the Wellington Syndicate's overall premium limit or further restrict the use of the Catlin Group's capital. In addition, US regulators require Lloyd's syndicates trading in certain business in the United States to maintain minimum deposits (which are the subject of various trusts established in the United States, referred to as the US trust funds) as protection for US policyholders. Accordingly, in the event of a major claim arising in the United States, for example from a major catastrophe, syndicates participating in such US business may be required to make cash calls to meet claims payment and deposit funding obligations. Lloyd's regulations currently restrict the distribution of monies to members of a syndicate for an underwriting year of account until a period of 36 months has expired, subject to the managing agent's discretion to pay out interim profits after one year. There is also a limited ability for managing agents to withdraw funds from US trust funds other than at the quarterly revision periods.

Any increase in the capital requirements for the Catlin Syndicate or the Wellington Syndicate or an obligation to grant additional funding for the US trust funds would particularly affect the CICL Group, which

typically provides, through intra-group financing arrangements, the funds necessary to meet Lloyd's requirements.

For further information on the various laws and regulations affecting the business of the Catlin Group and the CICL Group, please refer to "Regulation".

***The Catlin Group and the CICL Group could be affected by the loss of one or more key employees***

The business of the Catlin Group and the CICL Group might be adversely affected if certain key individuals cease to be employed by the Catlin Group or the CICL Group or if their services otherwise cease to be available. It might be very difficult for the Catlin Group or CICL Group to compensate for the loss of certain key members of senior management. In addition, there is a risk that an underwriter or entire underwriting team for a class of business could leave the Catlin Group or the CICL Group, which could limit their and/or their relevant underwriting platform's ability to carry on business in certain classes of insurance.

***If the Catlin Group or CICL Group underestimates the outcome of litigation, their profitability and ability to pay dividends might be adversely impacted***

The Catlin Group and the CICL Group are involved in litigation in the normal course of their insurance operations and the probable outcome of all such litigation is taken into account in the assessment of claims provisions. If the outcome of such litigation is underestimated, the Catlin Group's or CICL Group's results, and their ability to pay dividends, could be impacted accordingly.

Litigation (including litigation to which the Catlin Group entities are not a party such as litigation involving their insureds under third party liability policies or their reinsureds) might have an adverse impact upon the Catlin Group's and the CICL Group's business in that decisions of the courts may increase their claims costs under affected contracts or, more generally, might expand the scope of legal liabilities for the Catlin Group or its insureds and reinsureds. Such an expansion of liability could increase the amount of claims which have to be paid by the Catlin Group or the CICL Group.

**Risks relating to Lloyd's and other regulatory matters**

***General***

The Catlin Group operates in a regulated industry. Its underwriting activities are regulated partly by the FSA and partly by Lloyd's. The regulators have substantial powers of intervention in relation to the companies and members of Lloyd's which they regulate, including the power to prevent them from carrying out or effecting contracts of insurance.

European Directives affect the regulation governing the carrying on of insurance business in the United Kingdom. A new Directive covering the prudential supervision of insurance companies is being developed to replace the existing insurance Directives. The new insurance Directive is presently under consultation and is unlikely to come into force before 2010. Likewise, there is a new reinsurance Directive currently under consultation, which was mostly implemented in the UK by December 31, 2006, although there are some provisions remaining which must be implemented by December 2007. There can be no assurance that future legislation will not have an adverse effect on the Catlin Group and/or CICL Group.

***Lloyd's franchise obligations and the business plan***

Following the introduction of the proposals made by the Chairman's Strategy Group for the modernisation of the Lloyd's market, all Lloyd's managing agencies are required to comply with Lloyd's franchise principles and have their syndicate business plan approved by the Lloyd's Franchise Board. The Lloyd's Franchise Board may require changes to any business plan presented to it for approval, which could lead to a change in business strategy which may have an adverse effect on the Catlin Group's and/or CICL Group's financial condition and operating results.

### ***Value of Funds at Lloyd's***

A proportion of the Catlin Group's Funds at Lloyd's is provided by means of secured investments. The capital value of these investments may fall as well as rise and the income derived from them may fluctuate. Should the value of the Funds at Lloyd's of the Catlin Group be reduced due to changes in value or to meet underwriting or other relevant liabilities, the Catlin Group's underwriting capacity may be reduced. Lloyd's also has the power to reduce the underwriting capacity of the Catlin Group or to prohibit the Catlin Group's corporate members from underwriting if at any time the value of its total Funds at Lloyd's falls by more than 10% from the funds required at the last coming into line exercise and such shortfall is not made good by the Catlin Group, which might not always be possible. A reduction in the Catlin Group's underwriting capacity could adversely affect its financial condition and operating results, which in turn may adversely affect the CIGL Group's financial condition and operating results.

### ***Risk based capital***

The capital solvency ratio which is required by Lloyd's to be maintained by the Catlin Group's corporate members in the form of Funds at Lloyd's to support the underwriting activities of such corporate member is determined by a risk based capital assessment in accordance with the rules in the FSA's Lloyd's specialist sourcebook and the integrated prudential sourcebook. This calculates the capital requirement by taking account of the type, volume and diversification of the business underwritten, and applying various stress tests and scenario analyses to allow for underwriting liquidity, market, operational and other risks. The process and the method by which the capital requirement is calculated may alter from year to year and the Catlin Group's future underwriting capacity may be reduced as a consequence, which in turn may have material adverse consequences for the Catlin Group's results. Any such adverse consequences also could adversely affect the CIGL Group's own financial condition and operating results. In addition, since 1 July 2006, Lloyd's managing agents are now required to comply with the FSA's prudential requirements, which provide for, inter alia, an enhanced capital requirement and a new requirement for managing agents to assess the financial resources needed to support the risks of the insurance business that they manage, taking account of the underlying risks, the effectiveness of controls that mitigate those risks and stress and scenario tests. This new individual capital adequacy requirement aims to achieve a better assessment of the capital needed to support each syndicate, based on modeling individual syndicate robustness under a number of possible scenarios. Any failure by the Catlin Group to comply with these requirements could affect the amount of business which the Catlin Group may underwrite and/or could result in sanctions being imposed by the FSA, which in turn could adversely affect the CIGL Group.

### ***Risk of Equitas failure***

In the event that Equitas, the entity into which 1992 and prior years have been reinsured, were to fail, Lloyd's could be required to consider whether it wished to make good any shortfall or replenish the regulatory deposits which may have been used to meet policyholder claims. This might require the use of the New Central Fund (see below), following prior approval of the members of Lloyd's in general meeting. If the New Central Fund were to be used for either of these purposes, an additional New Central Fund levy might be imposed, subject to approval by vote, on all members underwriting on the relevant year of account in proportion to their underwriting capacity, although this levy might be weighted towards continuing members having an exposure to any unpaid liability in respect of 1992 and prior underwriting years. Any such levy could adversely affect the Catlin Group's and CIGL Group's respective financial condition and operating results.

Regulatory authorities in a number of jurisdictions require the maintenance of deposits for the protection of policyholders as a condition of their regulatory approval and accreditation of Lloyd's. If Equitas were to fail to meet its liabilities in full, the deposit in place at that time could be vulnerable to seizure by regulators or policyholders. The Lloyd's market would have to consider making good any part of the deposit required to be used to meet its liabilities, or risk being unable to continue to do business in the relevant jurisdiction. The seizure of such deposits could have an adverse impact on the Catlin Group's and CIGL Group's financial condition and operating results. While the risk of failure of Equitas has diminished following the agreement with National Indemnity Company, a subsidiary of Berkshire Hathaway Inc., to reinsure the bulk of Equitas's liabilities, some risk of failure remains.

### ***The New Central Fund***

Despite the principle that each member of Lloyd's is only responsible for the proportion of risk written on its behalf, the New Central Fund acts, inter alia, as a policyholders' protection fund to make payments where other members have failed to pay valid claims. The Council may resolve to make payments from the New Central Fund for the advancement and protection of policyholders, which could lead to additional or special levies being payable by the Catlin Group. This, in turn, could adversely affect the Catlin Group's and CICAL Group's financial and operating results.

### ***Lloyd's solvency***

The FSA requires Lloyd's to satisfy an annual solvency test. The solvency requirement is in essence that Lloyd's has sufficient assets in the aggregate to meet all outstanding liabilities of its members, both current and in run-off. If Lloyd's fails to satisfy the test in any year, the FSA may require Lloyd's to cease trading and/or members to cease or reduce underwriting. In the event of Lloyd's failing to meet any solvency requirement, either the Society of Lloyd's or the FSA may apply to the court for a Lloyd's Market Reorganisation Order ("LMRO"). On the making of an order a "reorganisation controller" is appointed, and for its duration, a moratorium is imposed preventing any proceedings or legal process from being commenced or continued against any party that is the subject of such an order, which if made, would apply to the market as a whole, including members, former members, managing agents, members' agents, Lloyd's brokers, approved run-off companies and coverholders unless individual parties are specifically excluded.

### ***Lloyd's credit rating***

The ability of Lloyd's syndicates to trade in certain classes of business at current levels is dependent on the maintenance of a satisfactory credit rating issued by an accredited rating agency. The financial security of the Lloyd's market is regularly assessed by three independent rating agencies, A.M. Best, Standard & Poor's and Fitch Ratings. The Catlin Group's Syndicate 2003 and the Wellington Group's Syndicate 2020 each benefit from Lloyd's current ratings and would be adversely affected if the current ratings were downgraded from their present levels. This in turn could adversely affect the CICAL Group's financial condition and operating results.

### ***Lloyd's trading licenses***

Lloyd's worldwide insurance and reinsurance business is subject to local regulation. Changes in such regulation may have an adverse effect on members generally and on the Catlin Group and CICAL Group.

### ***Lloyd's charges***

Lloyd's imposes a number of charges on businesses operating in the Lloyd's market, including, for example, annual subscriptions and central fund levies for members and policy signing charges. The bases and amounts of these charges may be varied by Lloyd's and could adversely affect the Catlin Group's and CICAL Group's financial condition and operating results.

### ***Lloyd's US trading arrangements***

The US Situs Trust Deeds require syndicates transacting certain types of business in the United States to maintain minimum deposits as protection for US policyholders. These deposits represent the syndicates' estimates of unpaid claims liabilities (less premiums receivable) relating to this business, adjusted for provisions for potential bad debt on premiums earned but not received and for any anticipated profit on unearned premiums. No credit is generally allowed for potential reinsurance recoveries. The New York Insurance Department and the US National Association of Insurance Commissioners currently require funding of 30% of gross liabilities in relation to insurance business classified as "Surplus Lines". The "Credit for Reinsurance" trust fund is usually required to be funded at 100% of gross liabilities. The funds contained within the deposits are not ordinarily available to meet trading expenses. US regulators may increase the level of funding required or change the requirements as to the nature of funding.

Accordingly, in the event of a major claim arising in the United States, for example from a major catastrophe, syndicates participating in such US business may be required to make cash calls to meet claims payments and deposit funding obligations. This could adversely affect the Catlin Group's and CICL Group's financial performance.

***Judicial proceedings or regulatory action may affect business practices***

A complaint filed by Eliot Spitzer, the Attorney General of New York State, on behalf of the people of the State of New York on 14 October 2004, in the Supreme Court of the State of New York County and New York made formal allegations of anti-competitive and fraudulent behaviour against Marsh & McLennan Companies, Inc. and Marsh Inc., and against certain insurance companies in the United States arising from broker remuneration practices. Also, other brokers including A J Gallagher, Aon and Willis were subject to investigation by other US agencies. That activity has resulted in settlements with Aon, A J Gallagher, Marsh, and Willis. Restitutionary funds amounting to some US\$1.1 billion have been set up for policyholders to be compensated for broker use of contingent commission arrangements. None of Catlin Group Limited, Wellington or Catlin Bermuda is a named party in these proceedings. Investigations have been undertaken by other Attorneys General from other States, including but not confined to the States of California and Connecticut. Some of these investigations have resulted in the filing of a complaint, whilst others are still at the information gathering stage. Catlin Group Limited and Wellington have responded to queries from various state insurance commissioners but so far as Catlin Group Limited and Catlin Bermuda are aware no investigation is ongoing with respect to the Catlin Group or the CICL Group. These investigations have, however, created uncertainty over certain insurance business practices in the United States and there can be no assurance that the United States market will continue to operate in the same manner as that in which it currently operates or that other United States market participants will remain unaffected. Whilst the FSA has stated that it is monitoring events in the United States, it has not publicly stated that it is undertaking any investigation in relation to market practices in the United Kingdom. Any of the FSA's or competition authority's investigations or any other investigations of the regulatory systems under which the Catlin Group operates, and consequent potential changes thereto, could have a material adverse effect on the business of the Catlin Group and/or CICL Group.

***Investigation by the Insurance Commissioner for the State of Georgia, United States***

The Insurance Commissioner for the State of Georgia, United States, has announced that he is conducting an investigation into the use of finite insurance and reinsurance and potential manipulation of financial statements. The Georgia Insurance Department has issued subpoenas to a number of participants in the insurance market in the United States and Europe (including the United Kingdom). The investigation is at the information gathering stage. There can be no assurance that the results of this investigation will not affect insurance business practices. Catlin Group Limited and Wellington have responded to queries from the commissioner but so far as Catlin Group Limited and Catlin Bermuda are aware no investigation is ongoing with respect to the Catlin Group or the CICL Group.

***Investigation by the Securities and Exchange Commission and the US Attorney for the Southern District of New York***

The Securities and Exchange Commission ("SEC") and the US Attorney for the Southern District of New York ("USAO") have started an investigation into the use of finite insurance and reinsurance products. The Society of Lloyd's was requested by the SEC and USAO to gather information on insurance and reinsurance business of a finite nature from all managing agents conducting business through their syndicates at Lloyd's. This investigation is at the information gathering stage. There can be no assurance that the results of this investigation will not affect insurance business practices. Catlin Group Limited and Wellington have responded to queries from the SEC and USAO but so far as Catlin Group Limited and Catlin Bermuda are aware no investigation is ongoing with respect to the Catlin Group or the CICL Group.

## **Risks relating to the Wellington acquisition**

***The Catlin Group may not achieve, or may have difficulty achieving, the expected benefits of the Wellington acquisition.***

The Catlin Group may not realize the expected benefits and synergies associated with the Wellington acquisition or may encounter difficulties in achieving these anticipated benefits. There can be no assurance that the Catlin Group will realize these benefits in the time expected or at all. In addition there can be no assurance that the costs of the implementation of the expense savings programme will not exceed those estimated by the Catlin Group.

Following completion of the Wellington acquisition it now is necessary to integrate the Wellington businesses into the Catlin Group's own. Implementation of the planned integration (including realization of the forecast benefits) will be challenging within the timeframe contemplated. Successful implementation of this programme will require a significant amount of management time and, thus, may affect or impair management's ability to run the business effectively during the period of implementation. In addition, the Catlin Group may not have, or be able to retain, personnel with the appropriate skill sets for the tasks associated with the integration programme, which could adversely affect the implementation of the Catlin Group's plans. This integration may take longer than expected or difficulties relating to the integration, of which the Directors are not yet aware, may arise. This could have a negative impact post-acquisition on the Catlin Group's results of operations.

## **Risks relating to forward-looking statements**

***A number of factors could cause actual results of the Catlin Group or the CICL Group to differ materially from the forward-looking statements in this document***

While this "Risk Factors" section of this offering memorandum alludes to material risks, the risks listed above do not necessarily comprise all those associated with an investment in Catlin Bermuda. In addition, this document contains forward-looking statements which involve unknown risks, uncertainties and other factors which could cause the actual results, financial condition, performance or achievements of the Catlin Group or Catlin Bermuda to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this section "Risk Factors".

## **Risks Relating to Taxation**

***Catlin Bermuda may become subject to taxes in Bermuda after 2016***

Catlin Bermuda has received the standard assurance from the Bermuda Minister of Finance, under Bermuda's Exempted Undertakings Tax Protection Act 1966, as amended, that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to Catlin Bermuda or to any of its operations or to its shares, debentures or other obligations until March 28, 2016. Consequently, if Catlin Bermuda's Bermuda tax exemptions are not extended past March 28, 2016, it may be subject to Bermuda tax after that date.

***The impact of the OECD's review of harmful tax practices is uncertain***

The Organization for Economic Cooperation and Development, or OECD, has published reports and launched a dialogue among members and non-members on measures to limit harmful tax practices. These measures are directed at counteracting the effects of tax havens and preferential tax regimes around the world.

Bermuda is not currently listed as a tax haven and, in response to the review, has committed to adopt international standards for fair tax competition, transparency and disclosure. It is not clear what further changes will result from this ongoing commitment or whether such changes will subject Catlin Bermuda or the Catlin Group to additional taxes.

***Shareholders' investment could be materially and adversely affected if Catlin Bermuda is deemed to be engaged in business in the United States***

Catlin Bermuda believes that Catlin Bermuda and its non-US subsidiaries, other than Catlin UK, operate in such a manner that they are not subject to US federal tax (other than US excise tax on reinsurance premiums and withholding tax on certain investment income from US sources) because they do not engage in a trade or business in the United States. Nevertheless, because definitive identification of activities which constitute being engaged in a trade or business in the United States is not provided by the US Internal Revenue Code of 1986, as amended (the "Code"), or regulations or court decisions, there can be no assurance that the US Internal Revenue Service (the "IRS") will not contend that Catlin Bermuda or one or more of such non-US subsidiaries are engaged in a trade or business in the United States, in which case your investment in Catlin Bermuda could be materially and adversely affected.

Catlin UK conducts business in the United States through a permanent establishment. Although there can be no assurance, Catlin Bermuda believes that Catlin UK should be entitled to the benefits of the income tax treaty between the United Kingdom and the United States (the "UK-US Treaty"). As a result, Catlin UK should only be liable for US federal income tax on income that is attributable to its permanent establishment and withholding tax on certain US-source investment income.

***Under certain circumstances, a Shareholder may be required to pay taxes on his pro-rata share of related party insurance income of Catlin Bermuda and its non-US insurance company subsidiaries***

If in any taxable year 25% or more of the total combined voting power or total value of Catlin Bermuda or any non-US insurance company subsidiary is owned by US persons (directly, indirectly or constructively), such insurance company would be a "controlled foreign corporation", or CFC, under the "related person insurance income" ("RPII") provisions of the Code. In that event, if the RPII of such insurance company equals or exceeds 20% of such insurance company's gross insurance income and direct or indirect insureds (and persons related to such insureds) own (or are treated as owning) 20% or more of the voting power or value of the shares of such insurance company, a US person that owns Shares directly or indirectly on the last day of the taxable year would be required to include in its income for US federal income tax purposes its share of the RPII of such insurance company for the portion of the taxable year during which such insurance company was a CFC under the RPII provisions, whether or not distributed, even though such US person may not have owned the Shares throughout such period. There can be no assurance that the RPII of Catlin Bermuda or any of its non-US insurance company subsidiaries will not equal or exceed 20% of Catlin Bermuda's or the non-US subsidiary's gross insurance income in any taxable year and that ownership of shares of Catlin Bermuda or any of its non-US subsidiaries by direct or indirect such insureds and related persons will not equal or exceed the 20% threshold described above.

The RPII rules provide that if a shareholder that is a US person disposes of shares in a non-US insurance company that has RPII (even if the amount of RPII is less than 20% of the company's gross insurance income) and in which US persons own directly, indirectly or constructively 25% or more of the shares, any gain from the disposition will generally be treated as ordinary income to the extent of the shareholder's share of the company's undistributed earnings and profits that were accumulated during the period that the shareholder owned the shares (whether or not such earnings and profits are attributable to RPII). In addition, such a shareholder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the shareholder. If Catlin Bermuda is a CFC under the RPII provisions, these rules generally will apply to dispositions of Shares by a US person. See "Taxation — United States Taxation — Taxation of Shareholders — Dispositions of Shares" below.

***US Persons who hold Shares will be subject to adverse tax consequences if Catlin Bermuda is considered to be a passive foreign investment company for US federal income tax purposes***

Catlin Bermuda does not expect to become in 2007 a "passive foreign investment company", or PFIC, for US federal income tax purposes. There can be no assurance, however, that Catlin Bermuda will not be a PFIC for 2007 or any subsequent year. If Catlin Bermuda were considered a PFIC, it could have material adverse tax

consequences for an investor that is subject to US federal income taxation, including subjecting the investor to a greater US tax liability than might otherwise apply. See “Taxation — United States Taxation — Taxation of Shareholders — Passive foreign investment company” below.

## **Risks Relating to the Shares**

### ***Dividends on the Shares are non-cumulative***

Dividends on the Shares are non-cumulative. Consequently, if our board of directors or a duly authorized committee of the board of directors does not authorize and declare a dividend for any dividend period, holders of the Shares would not be entitled to receive any such dividend, and such unpaid dividend will cease to accrue and be payable. We will have no obligation to pay dividends accrued for a dividend period after the dividend payment date for such period if our board of directors or a duly authorized committee of the board has not declared such dividend before the related dividend payment date, whether or not dividends are declared for any subsequent dividend period with respect to the Shares or any other preferred shares or parity stock we may issue.

### ***Our ability to declare and pay dividends on the Shares will be limited by law and by the ability of our subsidiaries to pay dividends or extend loans***

We are subject to Bermuda regulatory constraints that will affect our ability to pay dividends and make other payments. Under the Bermuda Companies Act 1981 we may declare or pay a dividend or make a distribution out of contributed surplus only if, among other things, we have reasonable grounds for believing that we are, or would after the payment be, able to pay our liabilities as they become due or if the realizable value of our assets would thereby not be less than the aggregate of our liabilities and issued share capital and share premium accounts. Our ability to pay dividends may also be affected by our obligations under the Catlin Group’s credit facilities. Further information on the Catlin Group’s credit facilities is given in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources”. Any inability of Catlin Bermuda to pay dividends could cause the market price of the Shares to decline.

Furthermore, we will depend in part on dividends from direct and indirect subsidiaries to pay dividends on the Shares. The inability of our direct and indirect subsidiaries to pay dividends to us could have a material adverse effect on our business and our ability to pay dividends.

### ***The Shares may not be a suitable investment for all investors***

Each potential investor in the Shares must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Shares, the merits and risks of investing in the Shares and the information contained or incorporated by reference in this offering memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Shares and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Shares, including where the currency for principal or interest payments is different from the potential investor’s currency;
- understand thoroughly the terms of the Shares; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***The Shares have no fixed final redemption date***

The Shares have no fixed final redemption date and holders of Shares have no rights to call for the redemption of the Shares. Although Catlin Bermuda may redeem the Shares in certain circumstances at its option, there are limitations on its ability to do so. Therefore, holders of Shares should be aware that they may be required to bear the financial risks of an investment in the Shares for an indefinite period of time.

***An active market for the Shares may fail to develop***

Prior to the offering there has been no market for the Shares and there can be no assurance that an active market for the Shares will develop and, if such a market were to develop, neither the initial purchasers nor any other person are required to maintain such a market. The liquidity and the market prices for the Shares can be expected to vary with changes in market and economic conditions generally and in Catlin Bermuda's financial condition and prospects in particular, as well as in response to other factors that generally influence the market prices of securities.

***We are controlled by Catlin Group Limited, which owns all of our common shares, and holders of the Shares have limited voting rights***

We are controlled by Catlin Group Limited, a Bermuda company listed on the London Stock Exchange that owns all of our common shares. The interests of Catlin Group Limited may not be the same as your interests as a holder of Shares. Holders of Shares will not possess any voting rights, except in certain limited circumstances, and generally will not be entitled to appoint, change or increase or decrease the number of directors of Catlin Bermuda. Accordingly, other than in certain specified circumstances, the Shares may have no voting rights with respect to certain matters upon which Catlin Group Limited, as the holder of all of our common shares, may be entitled to vote. See "Description of the Shares — Voting Rights".

***The Shares are subordinated to our existing and future debt and the obligations of our subsidiaries***

The holders of our indebtedness will have prior rights with respect to any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of our business. This may have the effect of reducing the amount of proceeds in connection with any insolvency, reorganization, dissolution or other winding up of our business paid to you as a holder of the Shares. Payment of amounts due on the Shares will be subordinated to all of our existing and future debt and will be structurally subordinated to existing and future obligations of Catlin Bermuda's subsidiaries.

***We are a Bermuda company and it may be difficult for you to enforce judgments against us***

Catlin Bermuda is a Bermuda company and a substantial portion of our assets are or may be located in jurisdictions outside the United States. It may therefore be difficult for investors to effect service of process against us or to enforce against us any claim they may have arising under, or any judgments of, US courts, including judgments predicated upon the civil liability provisions of the US federal securities laws.

There is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment. As a result, whether a United States judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the US court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules. A judgment debt from a US court that is final and for a sum certain based on US federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the US court, and the issue of submission and jurisdiction is a matter of Bermuda (not United States) law.

In addition to and irrespective of jurisdictional issues, the Bermuda courts will not enforce a United States federal securities law that is either penal or contrary to public policy of Bermuda. An action brought pursuant to a public or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the

state in its sovereign capacity, will not be entertained by a Bermuda Court. Certain remedies available under the laws of US jurisdictions, including certain remedies under US federal securities laws, will not be available under Bermuda law or enforceable in a Bermuda court, as they would be contrary to Bermuda public policy. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violations of US federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

***Our bye-laws restrict shareholders from bringing legal action against our officers and directors***

Our bye-laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against *inter alia* any of our officers or directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against our officers and directors unless the act or failure to act involves fraud or dishonesty.

***The Shares were preliminarily classified as preferred equity by the SVO of the NAIC***

The SVO has advised us that it would preliminarily classify the Shares offered hereby as preferred equity for purposes of calculating the statutory risk-based capital requirements of US insurance companies that hold the Shares. However, the SVO will not provide an official designation of the security-type of the Shares unless and until an insurance company subject to regulation by a US state insurance department purchases Shares and reports them to the SVO. The SVO will then review the final documentation related to the Shares and publish its final NAIC designation. Accordingly, no assurance can be given as to the official NAIC designation of the Shares. The NAIC classification of an investment directly affects US insurance company investors because it affects the capital required for such investment by such investors, but is not determinative in any way of any other tax, accounting or legal considerations for investors generally.

## **USE OF PROCEEDS**

We estimate that, after deducting underwriting discounts and commissions, our net proceeds from this offering will be approximately \$594,000,000. We intend to use the net proceeds of this offering to repay the borrowings under the \$500 million facility agreement dated November 17, 2006 between, among others, Catlin Group Limited, as borrower and guarantor, and J.P. Morgan Europe Limited, as Facility Agent, and to repay up to \$50 million of existing borrowings under Facility A of the Club Facilities and for general corporate purposes.

## CAPITALIZATION

The following table sets forth, as at June 30, 2006:

- the actual consolidated capitalization for the CICL Group; and
- the consolidated capitalization for the CICL Group on a pro forma basis, after giving effect to the offer of Shares described in this offering memorandum, as if it had occurred on June 30, 2006.

The table below should be read in conjunction with the CICL Group's audited consolidated financial statements and related notes thereto included elsewhere in this offering memorandum.

	As at June 30, 2006	
	Actual	Pro forma
	(in thousands)	
<b>Total debt</b> (1) .....	—	—
<b>Preferred stock</b>		
Preference shares issued hereunder .....	—	\$ 600,000
<b>Stockholder's equity</b>		
Common shares .....	\$ 1,000	\$ 1,000
Additional paid-in capital .....	736,986	736,986
Accumulated other comprehensive loss .....	(24,610)	(24,610)
Retained earnings .....	365,610	365,610
<b>Total capitalization</b> .....	<b>\$1,078,986</b>	<b>\$1,678,986</b>

(1) Total debt (actual and pro forma) does not include borrowings under \$500 million credit facilities entered into in connection with the Wellington acquisition. See the section "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Liquidity requirements" below. The Catlin Group maintains Letter of Credit and Revolving Loan Facilities, or Club Facilities, comprised of three facilities. One of those facilities, a \$50 million revolving facility, is secured by floating charges on Catlin Group assets and cross guarantees from material subsidiaries, including assets held by, and material subsidiaries within, the CICL Group. Further information on the Club Facilities is provided in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital resources".

Except as described in this offering memorandum, there has been no material change to our capitalization since June 30, 2006.

**SELECTED FINANCIAL AND OTHER INFORMATION FOR  
CATLIN BERMUDA AND ITS SUBSIDIARIES**

The following table sets forth selected historical consolidated financial and other information for the CICL Group as at and for the six months ended June 30, 2006 and 2005 and as at and for the years ended December 31, 2005, 2004 and 2003. The selected historical consolidated financial information set forth below has been derived from our unaudited and audited consolidated financial statements included elsewhere in this offering memorandum. This selected consolidated financial information should be read in conjunction with and is qualified by reference to these financial statements and the related notes. The following consolidated statement of income and consolidated balance sheet data have been prepared in conformity with US GAAP.

	As at and for the Six Months Ended June 30, (unaudited)		As at and for the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(in thousands, except ratios)				
<b>Statement of Operations</b>					
<b>Information</b>					
Gross premiums written . . . . .	\$ 465,241	\$ 396,602	\$ 737,184	\$ 442,524	\$258,042
Reinsurance premiums ceded . . . . .	(27,747)	(31,456)	(42,525)	(38,877)	(361)
Net premiums written . . . . .	437,494	365,146	694,659	403,647	257,681
Change in unearned premiums . . . . .	(70,833)	(115,615)	(143,078)	(68,709)	(93,342)
Net premiums earned . . . . .	366,661	249,531	551,581	334,938	164,339
Net investment income . . . . .	27,478	21,978	46,781	28,796	14,572
Net realized (losses)/gains on investments . . . . .	(2,003)	1,398	349	2,685	172
Net realized gains/(losses) on foreign currency . . . . .	25,317	(15,444)	(16,325)	10,591	7,860
Other income . . . . .	8,232	17,561	31,877	14,155	13,961
<b>Total revenues</b> . . . . .	<u>425,685</u>	<u>275,024</u>	<u>614,263</u>	<u>391,165</u>	<u>200,904</u>
Losses and loss expenses . . . . .	209,706	131,938	475,687	200,031	93,910
Policy acquisition costs . . . . .	75,190	44,572	79,104	62,379	21,687
Administrative and other expenses . . . . .	9,636	13,154	27,587	13,034	5,050
<b>Total expenses</b> . . . . .	<u>294,532</u>	<u>189,664</u>	<u>582,378</u>	<u>275,444</u>	<u>120,647</u>
Net income before income taxes . . . . .	131,153	85,360	31,885	115,721	80,257
Income tax benefit/(expense) . . . . .	852	(7,814)	(12,113)	(2,237)	(142)
<b>Net income</b> . . . . .	<u>\$ 132,005</u>	<u>\$ 77,546</u>	<u>\$ 19,772</u>	<u>\$ 113,484</u>	<u>\$ 80,115</u>
<b>Balance Sheet Information</b>					
Total investments and cash . . . . .	\$1,250,879	\$ 954,397	\$1,101,908	\$ 909,614	\$545,541
Total assets . . . . .	3,111,555	2,082,725	2,375,824	1,720,200	933,264
Unpaid losses and loss expenses . . . . .	942,221	439,550	750,947	342,649	129,533
Unearned premiums . . . . .	454,647	360,405	369,353	237,675	145,244
Total stockholder's equity . . . . .	1,078,986	962,912	889,574	896,359	595,971
<b>Other Information</b>					
Loss ratio(1) . . . . .	57.1%	52.9%	86.2%	59.7%	57.1%
Expense ratio(2) . . . . .	23.1%	23.1%	19.3%	22.4%	16.3%
Combined ratio(3) . . . . .	80.2%	76.0%	105.5%	82.1%	73.4%
Tax rate(4) . . . . .	N/A	9.2%	38.0%	1.9%	0.2%

(1) Calculated as losses and loss expenses divided by net premiums earned

(2) Calculated as the total of policy acquisition costs and other expenses, less financing and amortization expenses, divided by net premiums earned

(3) Total of loss ratio plus expense ratio

(4) Calculated as income tax expense divided by income before income taxes

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the CICL Group's results of operations and financial condition, which have been prepared on a consolidated basis, in accordance with US GAAP, and compares the results of operations and financial condition for the six months ended June 30, 2006 and 2005 and for the years ended December 31, 2005, 2004 and 2003.

### General

#### *Overview*

Catlin Bermuda is the Bermudian insurance and reinsurance subsidiary of Catlin Group Limited. Catlin Bermuda provides a wide range of property and casualty insurance and reinsurance products worldwide, including property catastrophe and per risk excess of loss treaty and casualty reinsurance products.

Catlin Bermuda is one of the principal operating subsidiaries of the Catlin Group. Through intra-group reinsurance arrangements and capital support, it serves to centralize a significant proportion of the assets, capital and underwriting risk of all of the Catlin Group, within regulatory and other constraints.

Catlin Bermuda's subsidiaries include Catlin UK and Catlin US. Members of the CICL Group underwrite insurance and reinsurance for third parties and Catlin Bermuda also reinsures risk written by other members of the Catlin Group. For the six months ended and as at June 30, 2006, the CICL Group's gross premiums written and total assets were \$465.2 million and \$3,111.6 million, respectively, representing 52% and 71%, of the Catlin Group's total gross premiums written and total assets. Of the CICL Group's gross premiums written, \$221.9 million, or 48%, was assumed under reinsurance contracts with other companies in the Catlin Group which are outside the CICL Group. Of the remaining \$243.3 million in gross premiums written by the CICL Group on behalf of third parties, \$116.6 million, or 25%, of total gross premiums written, was underwritten by Catlin UK and \$126.7 million, or 27%, of total gross premiums written was underwritten by Catlin Bermuda.

For the year ended and as at December 31, 2005, the CICL Group's gross premiums written and total assets were \$737.2 million and \$2,376.2 million, respectively, representing 53% and 62% of the Catlin Group's total gross premiums written and total assets. Of the CICL Group's gross premiums written, \$327.9 million, or 45%, was assumed under reinsurance contracts with other companies in the Catlin Group which are outside the CICL Group. Of the remaining \$409.3 million in gross premiums written by the CICL Group for third parties, \$232.1 million, or 31%, of the total, was underwritten by Catlin UK and \$177.2 million, or 24%, of the total, was underwritten by Catlin Bermuda.

#### *Drivers of profitability*

##### *General*

The CICL Group's profitability depends to a large extent on:

- the quality of its underwriting and pricing;
- the level of incurred losses;
- its ability efficiently and effectively to manage risk, including through the use of reinsurance;
- its ability to manage operating and administrative costs; and
- its ability to earn appropriate yields on its invested assets.

##### *Revenues*

The CICL Group derives its revenues principally from premiums from its insurance and reinsurance businesses, including reinsurance pursuant to which it assumes risks from other companies in the Catlin Group. It also earns net investment income and investment gains from its portfolio of invested assets.

Premiums from the CICL Group's insurance and reinsurance businesses are a function of the amount and types of contracts the CICL Group writes as well as prevailing market prices. There are many types of insurance and reinsurance contracts, with unique pricing, terms and conditions and expected profit margins. CICL Group's net premiums written are stated after deduction of reinsurance premiums ceded during the period. During the first six months of 2006, \$221.9 million, or 48%, of the CICL Group's gross premiums written was assumed under reinsurance contracts with other companies in the Catlin Group. Please refer to "— Material Items Affecting Results — Related Party Reinsurance Contracts" for more information about these contracts. Of the remaining \$243.3 million gross premiums written with third parties, \$116.6 million, or 25%, of total gross premiums written was underwritten by Catlin UK and \$126.7 million, or 27%, was underwritten by Catlin Bermuda.

During 2005, \$327.9 million, or 45%, of the CICL Group's gross premiums written was assumed under reinsurance contracts with other companies in the Catlin Group. Of the remaining \$409.3 million gross premiums written with third parties, \$232.1 million, or 31%, was written by Catlin UK and \$177.2 million, or 24%, was written by Catlin Bermuda.

The CICL Group's invested assets currently consist entirely of fixed-income instruments. Investment income is primarily a function of the average assets in the CICL Group's portfolio and the average yield earned on those assets. The investment yield is a function of market interest rates as well as the credit quality and maturity of the assets. In addition, the CICL Group realizes capital gains or losses on its invested assets as a result of changing market conditions, including, but not limited to, changes in market interest rates and changes in the market's perception of the credit quality of the CICL Group's invested assets.

#### *Expenses*

The CICL Group's expenses consist primarily of:

- Insurance and reinsurance losses and loss expenses, including in connection with reinsured losses of related parties, net of recoveries from the CICL Group's reinsurers;
- Policy acquisition costs, including commissions, premium taxes and other underwriting costs;
- Operating and administrative costs; and
- Income taxes.

Losses and loss expenses are a function of the amount and type of insurance and reinsurance contracts the CICL Group writes and the frequency and severity of claims and losses in those contracts. The CICL Group initially records losses and loss expenses based on an actuarial analysis of the estimated loss it expects to incur on each contract or group of contracts written. The CICL Group increases or decreases its initial loss estimates as actual losses occur, but the ultimate losses and loss expenses are finally determined when claims are settled.

Policy acquisition costs vary with and are primarily related to the production of premium, and as such are primarily a function of the amount and type of insurance and reinsurance contracts written. Operating and administrative costs are largely overhead and include salaries and related costs. Income taxes are a function of the amount of taxable income earned in the applicable tax jurisdiction.

### **Industry Conditions**

#### *Pricing conditions and premium rates*

The non-life insurance and reinsurance industry is cyclical, with periods of excess underwriting capacity and lower premium rates as well as periods of higher rates due to shortages of underwriting capacity. The cycle affects different elements of the non-life industry in different ways and in different periods.

The hurricanes that struck the United States, Mexico and the Caribbean in the second half of 2005 affected the non-life reinsurance industry, particularly classes such as property catastrophe and marine reinsurance, energy and facultative property coverages. Premium rates for these classes have risen steeply since the hurricanes.

Excluding the impact of the hurricanes, the non-life insurance and reinsurance markets have performed well since 2002. However, premium rates in some classes have declined over this period as competition has increased due to excess underwriting capacity. This trend is continuing in some non-catastrophe classes of business.

### ***Interest rate fluctuations***

Volatility in the world's fixed income markets impacts the value of the capital and the profitability of insurance companies. Movements in short and long-term interest rates affect the level of investment income and gains and losses on fixed income securities and, as a result, the value of the capital and the profitability of insurance and reinsurance companies.

In the second half of 2003, interest rates started to rise in some markets such as the United Kingdom and the United States. This trend continued during 2004, 2005 and the first half of 2006. As a result, companies such as those in the CICL Group that invested in fixed income securities have been able to invest in higher yielding securities and earn higher investment income during these periods. However, rising interest rates also caused the fixed income securities the CICL Group already held to decrease in value.

For the first six months of 2006, the CICL Group had net unrealized losses on investments of \$15.1 million and net realized losses on investments of \$2.0 million. During 2005, the CICL Group had net unrealized losses on investments of \$18.3 million, compared to net unrealized gains of \$6.0 million at the end of 2004. For the year ended December 2005, CICL Group had net realized gains on investments of \$0.3 million, compared to \$2.7 million in 2004.

### ***Regulatory, legislative and judicial environment***

The CICL Group's insurance and reinsurance businesses are regulated in each jurisdiction in which the CICL Group operates. In addition, business which is written in Lloyd's and reinsured by Catlin Bermuda is regulated by Lloyd's and the UK Financial Services Authority, or the FSA. Further changes in government policy, taxation or other laws may affect the CICL Group's operations and its financial results.

Political, judicial and legislative developments could broaden the scope of coverage or increase the amount of damages to be paid under the CICL Group's existing policies. For example, the Terrorism Risk Insurance Act in the United States, or TRIA, made terrorism coverage mandatory in insurance policies, even if it was specifically excluded by the terms of the relevant contract. TRIA created a federal program that backs up insurance companies and guarantees that certain terrorist-related claims will be reimbursed. Also in the US, court decisions in asbestos, environmental, workers compensation, professional malpractice and other categories of claims have caused the insurance industry to set higher loss reserves and claims charges for these classes. The reinsurance industry is generally becoming subject to a greater degree of regulatory oversight and increased capital requirements, and insurers' capital adequacy faces increased scrutiny from major rating agencies, particularly after the large catastrophe losses in 2005.

## **Critical Accounting Policies**

### ***Revenue recognition***

The CICL Group derives its revenues principally from premiums from its insurance and reinsurance businesses. Premiums received from clients that are not insurance companies are referred to as insurance premiums. Premiums in respect of clients that are insurance companies are referred to as reinsurance premiums. When the CICL Group purchases reinsurance protection for the business that it underwrites, it cedes premium to the reinsurer (or "retrocessionaire", in the case of reinsurance premiums ceded to another reinsurer). The amount of gross premiums written less outward reinsurance premiums is referred to as net premiums written. The CICL Group records premiums according to the terms of the underlying policies and according to various estimates that the CICL Group is required to make.

Premiums written are generally earned on a pro-rata basis over the coverage period and, as a result, premiums written during one reporting period do not necessarily represent the risks actually carried during that period. In a typical reporting period, the CICL Group generally earns a portion of the premiums written during

that period, and a portion of premiums that were written during earlier periods. Likewise, some part of the CICL Group's premiums written in a given period will not be earned until future periods. The CICL Group allocates premiums written but not yet earned to an unearned premium reserve, which it records as a liability on its balance sheet. As time passes, the unearned premium reserve in relation to a policy is gradually reduced and a corresponding amount is recognized in the income statement, as the premium is earned. The CICL Group writes numerous types of insurance and reinsurance policies, some of which are earned during periods shorter than one reporting period, while others are earned during substantially longer periods. The CICL Group's mix of business can change significantly from one period to the next and these changes can cause the relationship between premiums written and premiums earned to differ, perhaps significantly, on a year-to-year basis. Typically, differences in the percentage growth or decline between premiums written and earned mainly reflect differences in the CICL Group's mix of business and growth effects from year to year.

### ***Reserves for losses and loss expenses***

As required by applicable insurance laws and regulations and by US GAAP, the CICL Group establishes reserves for payment of losses and loss expenses. The level of reserves that the CICL Group establishes is based on estimates of future payments to settle claims, including legal and other expenses. Reserve estimates are made on a non-discounted basis and can include assumptions for items such as inflation rates and legal and regulatory developments, which can change over time. These estimates and assumptions, which cover both current and prior underwriting years, are based on available facts at the time the reserve is established and are inherently uncertain.

For most insurance and reinsurance companies, the estimation of the reserve for losses and loss expenses is the most significant judgment made by management. In deciding on appropriate levels of reserves, CICL Group's management considers internal and external actuarial estimates which are based on generally accepted actuarial principles. External actuarial consultants are regularly engaged to estimate reserves. The reserve for unpaid losses and loss expenses is based upon the total cost of claims that were reported to the CICL Group but not yet paid and the CICL Group's estimate of the anticipated cost of claims incurred but not reported. The CICL Group segregates certain large losses for separate reserve calculation.

The CICL Group regularly reviews and updates the methods, estimates and assumptions used to calculate and establish its reserves. In addition, the CICL Group re-estimates reserves established in prior years, which in some years leads to a strengthening of reserves already established and in others to a reversal of reserves previously established.

For more information on the reserves for claims incurred, including the CICL Group's and Catlin Group's accounting policies in relation thereto, see "Description of the Catlin Group — Loss and Loss Expense Reserves".

## **Material Items Affecting Results**

### ***Major loss events***

Catastrophic events that occur during a given financial year impact the CICL Group's losses and loss expenses and, in turn, its results for that year. Once such an event occurs, reserves are established based upon estimates of the total losses incurred by the insured or the ceding insurers and an estimate of the portion of such loss the Catlin Group or the CICL Group has insured or reinsured. It is possible that losses in respect of events that have occurred could exceed the Catlin Group's or the CICL Group's loss and loss expense reserves and have a material adverse effect on results of operations in a particular period, their financial position or their ability to pay dividends.

During 2005, Hurricanes Katrina, Rita and Wilma struck the United States, Mexico and the Caribbean. Before related party insurance, the CICL Group, through Catlin Bermuda, incurred a gross loss of \$91.6 million, or \$74.0 million net of reinsurance during 2005 for these three hurricanes. After inward and outward reinstatement premiums, the net loss recorded in the CICL Group's 2005 results was \$69.5 million. Including losses assumed from other Catlin Group companies outside of the CICL Group, the CICL Group's net loss was estimated to be \$205.2 million. The total losses to the CICL Group resulting from these three hurricanes may be

adjusted in subsequent periods as claims experience develops. In the first half of 2006, Catlin Bermuda incurred a further gross loss of \$11.4 million, or \$9.8 million net of reinsurance. Including losses assumed from other Catlin Group companies outside the CICAL Group, the additional losses recorded were \$17.4 million.

During 2004, the CICAL Group incurred gross losses of \$25.7 million, or \$18.8 million net of reinsurance, as a result of Hurricanes Charley, Frances, Ivan and Jeanne. Including losses assumed from other Catlin Group companies outside the CICAL Group, the CICAL Group's net loss was estimated to be \$72.8 million.

During 2003, there was a relatively low incidence of catastrophic loss for the CICAL Group.

### ***Reinsurance***

The CICAL Group's results may vary significantly from year to year depending on the occurrence of, and the CICAL Group's exposure to, natural and other disasters, such as windstorms, earthquakes, floods, fires, explosions, terrorism and other catastrophic events. The frequency and severity of these types of events is inherently uncertain. To manage this exposure to large loss events, the CICAL Group uses the risk management procedures established for the Catlin Group, including policies for managing aggregation of risk and the use of reinsurance. See "Description of the Catlin Group — Risk Management" for further information on the Catlin Group's risk management procedures.

Catlin Group purchases its third party outwards reinsurance to protect the overall Catlin Group portfolio, based on specific risks assumed by each of its underwriting platforms. It purchases a significant portion of its reinsurance program on a "losses occurring" basis. Premiums in respect of these reinsurance contracts are allocated to the CICAL Group in accordance with its participation in the Catlin Group program and are expensed by the CICAL Group over the period of coverage, which is generally 12 months from the date of inception of the policy.

### ***Related party reinsurance contracts***

As at June 30, 2006 and December 31, 2005, there were three types of related party reinsurance contracts in place that ceded related party risk to the CICAL Group:

- whole account qualifying quota share contracts of 10% on the 2004 year of account, 30% on the 2003 year of account and 20% on the 2002 year of account;
- a 50% whole account corporate quota share contract; and
- a long tail stop loss contract, covering certain long-tail casualty classes of business.

All of the above contracts cede Catlin Syndicate risk to Catlin Bermuda. In addition, there is a 60% whole account quota share contract, which cedes Catlin UK risk to Catlin Bermuda, which is eliminated on consolidation of the CICAL Group. A 75% corporate quota share contract, ceding CICI risk to Catlin Bermuda, was entered into in the fourth quarter of 2006.

The qualifying quota share contracts on the 2002 and 2003 years of account were commuted in the fourth quarter of 2006.

At the end of 2004, the qualifying quota share, corporate quota share and the long tail stop loss contracts were in place. The corporate quota share was put in place at the end of 2004, covering 2004, 2005 and 2006 underwriting years. Because the corporate quota share contract was put in place at the end of 2004, the reinsurance for the 2004 underwriting year is deposit accounted, and not recorded as premium income, since it is considered to be a retrospective contract. The reinsurance provided thereunder for the 2005 underwriting year is accounted for as a normal reinsurance contract. As a result of this contract, related party reinsurance premiums increased substantially in 2005 compared to 2004.

At the end of 2003, the 30% qualifying quota share contract covering the 2003 year of account was in place, as well as the long tail stop loss contract.

**Catlin Bermuda's Consolidated Statement of Operations for the Six Months Ended June 30, 2006 and 2005**

	<b>For the Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>	
Gross premiums written .....	\$465,241	\$396,602
Reinsurance premiums ceded .....	<u>(27,747)</u>	<u>(31,456)</u>
Net premiums written .....	437,494	365,146
Change in unearned premiums .....	<u>(70,833)</u>	<u>(115,615)</u>
Net premiums earned .....	366,661	249,531
Net investment income .....	27,478	21,978
Net realized (losses)/gains on investments .....	(2,003)	1,398
Net realized gains/(losses) on foreign currency .....	25,317	(15,444)
Other income .....	<u>8,232</u>	<u>17,561</u>
<b>Total revenues</b> .....	<u>425,685</u>	<u>275,024</u>
Losses and loss expenses .....	209,706	131,938
Policy acquisition costs .....	75,190	44,572
Administrative and other expenses .....	<u>9,636</u>	<u>13,154</u>
<b>Total expenses</b> .....	<u>294,532</u>	<u>189,664</u>
Income before income tax benefit/(expense) .....	131,153	85,360
Income tax benefit/(expense) .....	<u>852</u>	<u>(7,814)</u>
<b>Net income</b> .....	<u>\$132,005</u>	<u>\$ 77,546</u>

**Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005**

***Gross premiums written***

Gross premiums written increased \$68.6 million, or 17%, from \$396.6 million in 2005 to \$465.2 million in 2006. Included in this amount were premiums assumed from related parties, which increased \$40.2 million, or 22%, from \$181.7 million in 2005 to \$221.9 million in 2006. Third party gross premiums written increased \$28.5 million, or 13%, from \$214.9 million in 2005 to \$243.4 million in 2006.

**Catlin Bermuda Total Gross Premiums Written**

	<b>For the Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>	
Catlin Bermuda — related party .....	\$221,866	\$181,746
Catlin Bermuda — third party .....	126,732	99,619
Catlin UK .....	<u>116,632</u>	<u>115,237</u>
<b>Total gross premiums written</b> .....	<u>\$465,241</u>	<u>\$396,602</u>

Within Catlin Bermuda, the main class of business contributing to the increase in gross premiums written was Catastrophe Treaty, reflecting a favorable environment and reinstatement premiums, as well as increased demand for back-up cover in the wake of the 2005 hurricanes in the United States. Market conditions for catastrophe exposed business continued to be favorable in peak zones. As a result, Catlin management increased this business to take advantage of these higher rates and capital efficiency.

The main classes of business contributing to the increase in gross premiums written by Catlin UK include General Liability, due to a new facility. In addition, premiums written in the Aviation class written from the Guernsey office for non-airline business contributed to the increase.

#### ***Net premiums earned***

Net premiums earned increased \$117.2 million, or 47%, from \$249.5 million in 2005 to \$366.7 million in 2006. Of this amount, related party net premiums earned increased \$84.7 million, or 99%, from \$85.5 million in 2005 to \$170.3 million in 2006. The third party classes of business in Catlin Bermuda with the greatest increases in net premiums earned were Catastrophe Treaty, Proportional Treaty, Casualty Treaty and Medical Malpractice, reflecting the growth in these classes over the past several underwriting years.

The Catlin UK platform became more established in 2006, its third underwriting year. The increase in net premiums earned within Catlin UK in 2006 reflected premiums written in the prior year and recorded as revenue in 2006, as well as an increase in premiums written in the current underwriting year.

#### ***Net investment income and net realized gains on investments***

Net investment income and net realized gains on investments increased \$2.1 million, or 9%, from \$23.4 million in 2005 to \$25.5 million in 2006. Realized return on average investments, including interest on funds held, was 1.78% in 2006, compared to 3.79% in 2005. See “—Annualized Return on Average Investments” below, for a more detailed analysis of the CICL Group’s investment return.

#### ***Net realized gains/(losses) on foreign exchange***

During the six months ended June 30, 2006, the CICL Group realized a gain on foreign exchange of \$25.3 million, compared with a loss of \$15.4 million in the prior year.

The pound sterling/US dollar spot rate at January 1, 2006 was 1.72 and at June 30, 2006 was 1.85, a change of 7.6%. During 2005, the rate changed by 6.8%, from 1.92 at January 1 to 1.79 at June 30.

The CICL Group records gains and losses on foreign exchange when CICL Group companies realize gains and losses on transactions in currencies which are not their functional currency (the currency in which most cash flows are denominated), or when they revalue assets and liabilities which are not denominated in their functional currency. All of the related party reinsurance contracts are denominated in sterling and therefore the revaluation of the net assets from these contracts results in gains or losses for Catlin Bermuda. In 2006, the revaluation of the related party reinsurance net assets resulted in the majority of the foreign exchange gains.

Gains and losses arising on the translation of the financial position of Catlin UK from its functional currency into US dollars are recorded directly in stockholder’s equity and are not recorded in CICL Group’s statement of operations.

#### ***Losses and loss expenses***

Losses and loss expenses increased \$77.8 million, or 59%, from \$131.9 million in 2005 to \$209.7 million in 2006. The loss ratio increased 4.2 percentage points, from 52.9% in 2005 to 57.1% in 2006.

Related party losses and loss expenses increased \$35.1 million, or 60%, from \$58.2 million in 2005 to \$93.3 million in 2006. This is mainly due to losses assumed from the Catlin Syndicate, a related party, with the growth of the underlying premium assumed as well as approximately \$7.0 million of assumed losses related to the development of the losses from the 2005 hurricanes in the United States.

Losses and loss expenses incurred from third party business increased \$42.7 million, or 58%, from \$73.7 million in 2005 to \$116.4 million in 2006. The increase mainly represents a satellite loss of \$19.0 million incurred by Catlin UK during the first quarter of 2006.

### *Policy acquisition costs*

Policy acquisition costs increased \$30.6 million, or 69%, from \$44.6 million in 2005 to \$75.2 million in 2006, reflecting growth in net premiums earned. The policy acquisition cost ratio increased by 2.6 percentage points, from 17.9% in 2005 to 20.5% in 2006. Brokerage rates were basically unchanged for Catlin Bermuda, but increased for Catlin UK.

### *Administrative and other expenses*

Administrative and other expenses decreased \$3.5 million, or 27%, from \$13.1 million in 2005 to \$9.6 million in 2006. The administrative and other expense ratio decreased 2.6 percentage points, from 5.2% in 2005 to 2.6% in 2006.

Significant professional fees were incurred in the first half of 2005 for due diligence for the acquisition of Catlin US, to establish the new Catlin UK insurance company structure and to novate the business from the UK Branch of Catlin Bermuda to Catlin UK.

### *Tax expense*

Income tax expense decreased \$8.6 million, from a \$7.8 million tax expense in 2005 to a \$0.8 million tax recovery in 2006. The recovery reflects the net loss position in Catlin UK.

## **Catlin Bermuda's Consolidated Statement of Operations for the Years Ended December 31, 2005, 2004 and 2003**

	For the Year Ended December 31,		
	2005	2004	2003
	(in thousands)		
Gross premiums written . . . . .	\$737,184	\$442,524	\$258,042
Reinsurance premiums ceded . . . . .	(42,525)	(38,877)	(361)
Net premiums written . . . . .	694,659	403,647	257,681
Change in unearned premiums . . . . .	(143,078)	(68,709)	(93,342)
Net premiums earned . . . . .	551,581	334,938	164,339
Net investment income . . . . .	46,781	28,796	14,572
Net realized gains on investments . . . . .	349	2,685	172
Net realized (losses)/gains on foreign currency . . . . .	(16,325)	10,591	7,860
Other income . . . . .	31,877	14,155	13,961
<b>Total revenues</b> . . . . .	<b>614,263</b>	<b>391,165</b>	<b>200,904</b>
Losses and loss expenses . . . . .	475,687	200,031	93,910
Policy acquisition costs . . . . .	79,104	62,379	21,687
Administrative and other expenses . . . . .	27,587	13,034	5,050
<b>Total expenses</b> . . . . .	<b>582,378</b>	<b>275,444</b>	<b>120,647</b>
Income before income taxes . . . . .	31,885	115,721	80,257
Income tax . . . . .	(12,113)	(2,237)	(142)
<b>Net income</b> . . . . .	<b>\$ 19,772</b>	<b>\$113,484</b>	<b>\$ 80,115</b>

## **Year Ended December 31, 2005 Compared to Year Ended December 31, 2004**

### *Gross premiums written*

Gross premiums written increased \$294.7 million, or 67%, from \$442.5 million in 2004 to \$737.2 million in 2005. Included in this amount were premiums assumed from related parties, which increased \$237.5 million, or

263%, from \$90.3 million in 2004 to \$327.9 million in 2005. This increase was largely due to the change in the accounting treatment of the qualifying quota share contract as described above under “— Material Items Affecting Results — Related Party Reinsurance Contracts”. Third party gross premiums written increased \$57.1 million, or 16%, from \$352.2 million in 2004 to \$409.3 million in 2005.

	<u>For the Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(in thousands)		
Catlin Bermuda — related party . . . . .	\$327,876	\$ 90,332	\$201,069
Catlin Bermuda — third party . . . . .	177,179	152,482	56,973
Catlin UK . . . . .	<u>232,129</u>	<u>199,710</u>	<u>—</u>
<b>Total gross premiums written . . . . .</b>	<b><u>\$737,184</u></b>	<b><u>\$442,524</u></b>	<b><u>\$258,042</u></b>

Within Catlin Bermuda, the main class of business contributing to the increase in gross premiums written was Catastrophe Treaty, reflecting a good rating environment and reinstatement premiums, as well as increased demand for back-up cover in the wake of the 2005 hurricanes in the United States. In addition, premiums written in the Medical Malpractice class of business increased because a consortium arrangement with Berkshire Hathaway was not renewed during 2005 and, as a result, Catlin Bermuda wrote 100% of the business during 2005 rather than sharing it with Berkshire Hathaway. This increase was partly offset by decreases in the Political Risk class of business, since all business written during 2004 was multi-year and non-cancelable and therefore all gross premiums were recorded as written in 2004. In addition, Catlin Bermuda exited the Medical Expenses class of business at the end of 2004.

The main classes of business contributing to the increase in gross premiums written by Catlin UK include UK Commercial, due to binder contracts written late in 2004, which continue to generate premiums in 2005, as well as increased line sizes during the year. In addition, premiums written in the Aviation class of business increased after the Catlin Group decided in late 2004 to write certain aviation contracts wholly by Catlin UK rather than continuing to do so on a split stamp basis with the Catlin Syndicate. Finally, Catlin UK started writing Construction business for the first time at the end of 2004.

***Net premiums earned***

Net premiums earned increased \$216.7 million, or 65%, from \$334.9 million in 2004 to \$551.6 million in 2005. Of this amount, related party net premiums earned increased \$78.2 million, or 54%, from \$143.7 million in 2004 to \$221.9 million in 2005. A substantial portion of this increase was due to the effect of the differing accounting treatments of the corporate quota share contracts in 2004 and 2005 described above. The third party classes of business in Catlin Bermuda with the greatest increases in net premiums earned were Catastrophe Treaty, Proportional Treaty and Medical Malpractice, reflecting the growth in these classes over the past couple of underwriting years.

The Catlin UK platform became more established in 2005, its second underwriting year. The increase in net premiums earned within Catlin UK in 2005 reflected the recording as revenue of premiums written in the prior year, as well as an increase in premiums written in the current underwriting year.

***Net investment income and net realized gains on investments***

Net investment income and net realized gains on investments increased \$15.6 million, or 50%, from \$31.5 million in 2004 to \$47.1 million in 2005. Realized return on average investments, including interest on funds held, was 4.7% in 2005, compared to 4.3% in 2004. See “— Annualized Return on Average Investments”, for a more detailed analysis of the CICL Group’s investment return.

***Net realized (losses)/gains on foreign exchange***

During the year ended December 31, 2005, the CICL Group realized a loss on foreign exchange of \$16.3 million, compared with a gain of \$10.6 million in the prior year.

The pound sterling/US dollar spot rate at January 1, 2005 was 1.92 and at December 31, 2005 was 1.72, a change of more than 10%. In 2004, the rate changed by 7%, from 1.79 at January 1 to 1.92 at December 31.

In 2005, the revaluation of the related party reinsurance net assets carried in Catlin Bermuda resulted in exchange losses. These losses were partly offset by gains realized on the transfer of balances from the separately regulated UK branch of Catlin Bermuda to Catlin Bermuda.

### ***Losses and loss expenses***

Losses and loss expenses increased \$275.7 million, or 138%, from \$200.0 million in 2004 to \$475.7 million in 2005. The loss ratio increased 26.5 percentage points, from 59.7% in 2004 to 86.2% in 2005.

Related party losses and loss expenses increased \$164.0 million, or 198%, from \$83.0 million in 2004 to \$247.0 million in 2005. This is largely due to an increase in the losses assumed from Catlin Syndicate, a related party, as a result of the 2005 hurricanes in the United States. The CICL Group assumed \$131.2 million of net losses under the related party reinsurance contracts.

Losses and loss expenses incurred from third party business increased \$111.7 million, or 95%, from \$117.0 million in 2004 to \$228.7 million in 2005. This increase reflects hurricane losses incurred by Catlin Bermuda in 2005 in the Catastrophe Treaty class of business. Included in these numbers are net incurred losses of \$74.0 million for the three hurricanes, which increased the loss ratio by 13.4 percentage points. In addition, losses and loss expenses in Catlin UK also increased as the underwriting matured, in line with the growth in net premiums earned.

The release of reserves relating to claims incurred in the prior years totaled \$33.2 million in 2005, compared to a release of \$14.9 million in 2004. In both years, these releases were a result of changes in estimates of insured events in previous years; the estimates were adjusted to reflect reductions of expected ultimate loss costs, settlement of losses at amounts below previously estimated loss costs and a reduction in uncertainty surrounding the quantification of the net cost of claim events.

### ***Policy acquisition costs***

Policy acquisition costs increased \$16.7 million, or 27%, from \$62.4 million in 2004 to \$79.1 million in 2005, reflecting growth in net premiums earned. The policy acquisition cost ratio decreased by 4.3 percentage points, from 18.6% in 2004 to 14.3% in 2005, representing decreases in brokerage rates.

### ***Administrative and other expenses***

Administrative and other expenses increased \$14.6 million, or 112%, from \$13.0 million in 2004 to \$27.6 million in 2005. The administrative and other expense ratio increased 1.1 percentage points, from 3.8% in 2004 to 4.9% in 2005.

Significant professional fees were incurred in 2005 for due diligence for the acquisition of Catlin US, and to establish the new Catlin UK insurance company structure and to novate the business from the UK Branch of Catlin Bermuda to Catlin UK.

### ***Tax expense***

Income tax expense increased \$9.9 million, from \$2.2 million in 2004 to \$12.1 million in 2005. The tax rate increased substantially, from 2% in 2004 to 38% in 2005, largely due to losses assumed by Catlin Bermuda, which has a tax rate of zero, under the related party reinsurance contracts, with no corresponding offset of taxable profits in Catlin UK.

## **Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**

### ***Gross premiums written***

Gross premiums written increased \$184.5 million, or 72%, from \$258.0 million in 2003 to \$442.5 million in 2004. Included in this amount were premiums assumed from related parties, which decreased \$111.5 million, or 55%, from \$201.8 million in 2003 to \$90.3 million in 2004. This decrease was largely due to the decrease in the qualifying quota share reinsurance from 30% in 2003 to 10% in 2004, as described above in “— Material Items Affecting Results — Related Party Reinsurance Contracts”. Third party gross premiums written increased \$295.2 million, or 518%, from \$57.0 million in 2003 to \$352.2 million in 2004. This increase was due to the establishment of Catlin UK, which started writing business in 2004, as well as to increases in classes of business written by Catlin Bermuda, such as Catastrophe Treaty and Proportional Treaty.

### ***Net premiums earned***

Net premiums earned increased \$170.6 million, or 104%, from \$164.3 million in 2003 to \$334.9 million in 2004. Of this amount, related party net premiums earned increased \$0.3 million, from \$143.4 million in 2003 to \$143.7 million in 2004. Third party net premiums earned increased substantially as Catlin UK started writing business during 2004. In addition, Catlin Bermuda started writing third-party business during 2003 and this growth reflected premiums written in 2003 being earned in 2004, as well as increased earnings on premiums written during 2004. This increase arose as Catlin Bermuda became more established in its second underwriting year.

### ***Net investment income and net realized gains/(losses) on investments***

Net investment income and net realized gains/(losses) on investments increased \$16.8 million, or 114%, from \$14.7 million in 2003 to \$31.5 million in 2004. Realized return on average investments, including interest on funds held, was 4.3% in 2004, compared to 3.2% in 2003. See “— Annualized Return on Average Investments”, for a more detailed analysis.

### ***Net realized gains on foreign exchange***

Realized gains on foreign exchange increased \$2.7 million, or 34%, from \$7.9 million in 2003 to \$10.6 million in 2004.

The pounds sterling/US dollar spot rate increased from 1.79 at January 1, 2004 to 1.92 at December 31, 2004, an increase of 7%. In 2003, the rate increased from 1.61 at January 1 to 1.79 at December 31, an increase of 11%. The foreign exchange gains in both years reflect the strengthening in sterling, as well as an increase in the level of sterling transactions with related party companies.

### ***Losses and loss expenses***

Losses and loss expenses increased \$106.1 million, or 113%, from \$93.9 million in 2003 to \$200.0 million in 2004. The loss ratio increased 2.6 percentage points, from 57.1% in 2003 to 59.7% in 2004. Included in these numbers were net incurred losses of \$18.8 million for hurricanes Charley, Frances, Ivan and Jeanne in 2004; there were no comparable losses in 2003.

Related party losses and loss expenses decreased \$0.9 million, or 1%, from \$83.9 million in 2003 to \$83.0 million in 2004.

Losses and loss expenses incurred from third party business increased \$100.8 million, or 622%, from \$16.2 million in 2003 to \$117.0 million in 2004. This reflects the startup of Catlin UK during 2004. In addition, losses and loss expenses in Catlin Bermuda increased as claims in respect of the 2003 underwriting year were made as the policies written in that year matured, in line with the growth in net premiums earned.

### ***Policy acquisition costs***

Policy acquisition costs increased \$40.7 million, or 188%, from \$21.7 million in 2003 to \$62.4 million in 2004. The policy acquisition cost ratio increased 5.4 percentage points, from 13.2% in 2003 to 18.6% in 2004. Catlin UK began writing business during 2004, resulting in a higher brokerage rate than business written in Catlin Bermuda.

### ***Administrative and other expenses***

Administrative and other expenses increased \$7.9 million, or 155%, from \$5.1 million in 2003 to \$13.0 million in 2004. The administrative and other expense ratio increased 0.7 percentage points, from 3.1% in 2003 to 3.8% in 2004. These increased expenses reflect startup costs of Catlin UK as well as increased staff throughout the CICL Group to manage its growing business.

### ***Tax expense***

Income tax expense increased \$2.1 million, from \$0.1 million in 2003 to \$2.2 million in 2004, primarily due to the startup of Catlin UK and taxable profits generated during its first year of operation.

### **Annualized Return on Average Investments**

	<b>For the Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(in thousands, except percentages)</b>	
Total investments, as at June 30 . . . . .	<u>\$1,250,879</u>	<u>\$954,397</u>
Net investment income . . . . .	\$ 27,478	\$ 21,978
Net realized (losses)/gains on investments . . . . .	(2,003)	1,398
Net unrealized losses on investments . . . . .	<u>(15,079)</u>	<u>(5,858)</u>
	<u>\$ 10,396</u>	<u>\$ 17,518</u>
Realized annualized return on average investments . . . . .	4.38%	5.06%
Total annualized return on average investments . . . . .	1.78%	3.79%

### ***Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005***

During the first six months of 2006, average interest rates continued to rise, with three-year rates in the U.S. averaging 4.65% in 2006 compared to 2.74% in 2005. Similarly, five year rates averaged 4.75% as compared to 3.78% for the same period last year. As a result of the relatively short-term nature of CICL Group's liabilities and therefore its matched assets, the CICL Group was heavily impacted by these rate rises, and recorded substantial unrealized losses on its invested assets.

In addition, the CICL Group holds significant levels of treasury inflation protected securities. The interest rate rises during the year triggered accretion income in these securities, which contributed to the increase in net

investment income during the year. At the same time, the amortized cost of the portfolio increased above market value, further contributing to the CICL Group's total unrealized loss position.

	<b>For the Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(in thousands, except percentages)</b>		
Total investments, as at December 31 .....	<u>\$1,101,908</u>	<u>\$909,614</u>	<u>\$545,541</u>
Net investment income .....	\$ 46,781	\$ 28,796	\$ 14,572
Net realized gains on investments .....	349	2,685	172
Net unrealized (losses)/gains on investments .....	<u>(18,339)</u>	<u>6,021</u>	<u>5,582</u>
	<u>\$ 28,791</u>	<u>\$ 37,502</u>	<u>\$ 20,326</u>
Realized annualized return on average investments .....	4.7%	4.3%	3.2%
Total annualized return on average investments .....	2.9%	5.3%	4.4%

***Year ended December 31, 2005 compared to year ended December 31, 2004***

During 2005, short-term interest rates rose and yield curves flattened dramatically, significantly impacting fixed income securities with a maturity of less than three years. As a result of the relatively short-term nature of CICL Group's liabilities and therefore its matched assets, the CICL Group was heavily impacted by these rate rises, and recorded substantial unrealized losses on its invested assets.

***Year ended December 31, 2004 compared to year ended December 31, 2003***

During 2004, one to five year interest rates remained relatively flat, with small decreases in longer-term rates. Due to the increased level of CICL Group's investments in fixed maturities in early 2004, unrealized gains increased year on year. The majority of these gains were experienced in the portfolio of treasury inflation protected securities referred to above. In addition, the duration of the CICL Group fixed maturity portfolio increased, from 1.3 years at the end of 2003 to 3.7 years at the end of 2004.

**Liquidity and Capital Resources**

The CICL Group has no borrowings. The principal sources of funds for these companies' operations consist of insurance and reinsurance premiums and net investment income. The principal uses are the payment of claims related to insurance and reinsurance risks and operating expenses as well as capital expenditures and the purchase of reinsurance. Catlin Bermuda did not pay dividends in 2005, 2004 or 2003.

The CICL Group's businesses are subject to both regulatory and solvency requirements. On both an individual company and on a consolidated basis, the CICL Group exceeds minimum solvency requirements.

***Liquidity requirements***

As at June 30, 2006, the Catlin Group had outstanding debt of \$50 million, representing borrowings under the 364-day \$50 million revolving facility with a one year term-out option that comprises part of the Club Facility discussed below under "— Capital resources". The facility is guaranteed by cross guarantees of material subsidiaries, including members of the CICL Group. This debt bears interest at LIBOR plus 65 basis points and the Catlin Group is required to maintain free and unencumbered assets consisting of cash, OECD government bonds, US agency bonds and corporate bonds, discounted by prescribed percentages, in an amount sufficient to repay the loan at any time. This loan, which is available under one, two or three month renewal periods, can be repaid, with notice, at any time at the discretion of the Catlin Group in increments of \$10 million. The Catlin Group has the option to extend the revolving facility for 364 days, or to convert all cash advances into a term loan. The Catlin Group's debt to equity ratio was 4.9% at June 30, 2006.

On November 17, 2006, Catlin Group Limited, as borrower and guarantor, and Catlin Holdings Limited, Catlin Holdings (UK) Limited, Catlin Bermuda, Catlin Syndicate Limited, Catlin Finance (UK) Limited and

Catlin Insurance Company (UK) Holdings Limited, each as guarantors, entered into a \$500 million credit facility with JPMorgan Europe Limited, as Facility Agent, JPMorgan PLC, as arranger, and JPMorgan Chase Bank, N.A., as original bank.

The facility agreement provides for a single US dollar denominated facility to be used, amongst other purposes, for financing the Wellington acquisition and associated transaction and other costs. All amounts outstanding under the facility agreement shall be repaid on the final maturity date, being 364 days after the date of the facility agreement, provided that, at Catlin Group Limited's option (subject to no default being outstanding under the facility agreement and payment of an extension fee of 0.15% of each bank's commitment), the final maturity date may be extended by 6 months. Catlin Group Limited intends to repay amounts borrowed under this facility with net proceeds from this offering.

Under the facility, the borrower and guarantors give various covenants and undertakings customary for facilities of this nature, including the provision of certain financial information, preservation of assets and compliance with all material laws to which such entities may be subject. The facility agreement contains certain restrictions on the borrowers and guarantors including restrictions on granting security, entering into mergers and acquisitions, the disposal of certain assets, entering into transactions with affiliates, the incurrence of financial indebtedness and the granting of loans and guarantees. The facility agreement also contains events of default customary for acquisition financings, the occurrence of which would entitle the banks to accelerate all outstanding loans and terminate their commitments in respect of the facility agreement.

### ***Liquidity sources***

As at June 30, 2006, the CICL Group's consolidated total invested assets were \$1.3 billion, which included cash and short-term instruments of \$463 million. The CICL Group's invested assets consist solely of highly liquid, highly rated investments. As at June 30, 2006, 96% of the CICL Group's invested assets were rated AA- or Aa3 or better by either Standard & Poor's or Moody's, with an overall weighted average of AAA. A key objective of the Catlin Group's investment policy is to match the currency of its risks to the currency of its investments in order to avoid foreign exchange exposure.

CICL Group's cash flows from operations were \$74.1 million in the first six months of 2006, \$226.6 million in 2005, \$265.9 million in 2004 and \$42.2 million in 2003.

The CICL Group assumes business from the Catlin Syndicate, a related party. Cash flows from the operations of the Catlin Syndicate are subject to restrictions imposed by Lloyd's. These cash flows can be used to pay expenses, including claims and reinsurance costs, in respect of the Syndicate. However, under the Lloyd's accounting system, net profits for a given Lloyds underwriting year of account are only distributable from premium trust funds to members of a syndicate upon closure of the year of account (ordinarily 36 months from commencement of the year of account). At the managing agent's discretion, profits may be paid out earlier than that as long as certain conditions are met.

### ***Capital resources***

In November 2003, the Catlin Group entered into Letter of Credit and Revolving Loan Facilities, which are referred to in this offering memorandum as the "Club Facilities", with three banks. The Club Facilities are comprised of three tranches, Facilities A, B and C1 and C2. The Club Facilities have been varied, amended and restated from time to time, most recently on December 15, 2006 when the credit available under the Club Facilities increased from \$250.0 million and £150.0 million to \$400.0 million and £275.0 million. The following amounts were outstanding under the Club Facilities as at June 30, 2006:

- Outstanding borrowings under the revolving facility in the amount of \$50.0 million, discussed in "— Liquidity requirements" above.
- A clean, irrevocable standby Letter of Credit of \$277.5 million (£150.0 million) to support the Catlin Syndicate's underwriting at Lloyd's. As at June 30, 2006, the Catlin Syndicate has utilized this facility and deposited with Lloyd's a letter of credit in the amount of \$277.5 million (£150.0 million). 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. This letter of credit became effective on June 26, 2006 and has an initial expiry date of November 27, 2009. Collateral of \$74.0 million (£40.0 million) was provided by August 16, 2006 and a further \$37.0 million (£20.0 million) must be provided by August 1, 2007. This facility is guaranteed by cross guarantees from material subsidiaries of the Catlin Group, including companies of the CICL Group.

- A two-year \$200.0 million standby letter of credit facility is available for utilization by Catlin Bermuda and Catlin UK. At June 30, 2006, \$128.5 million in letters of credit were outstanding, of which \$126.5 million were issued for the benefit of Catlin Bermuda, with a single letter of credit of \$2.0 million (£1.1 million) for the benefit of Catlin UK. Collateral of 110% of 50% of the face value of the utilized portion of the letter of credit under the standby facility must be provided for each letter of credit when drawn.

In November 2006, the Catlin Group entered into a \$500 million credit facility dated November 17, 2006 with JP Morgan Europe Limited as Agent, JP Morgan PLC as arranger and JP Morgan Chase Bank N.A. as original bank to be used, amongst other purposes, to finance the acquisition of Wellington. Please refer to the paragraph above headed "Liquidity requirements" for further information.

### **Quantitative and Qualitative Disclosures about Market Risk and Other Risks**

Market risk can be described as the risk of the change in value of an asset due to changes in equity prices, creditworthiness, interest rates, foreign exchange, and other factors. Liquidity risk is the risk of not being able to access certain assets when needed. The CICL Group is exposed to both market and liquidity risks as described further below. The CICL Group does not face risk from changes in equity prices since its invested assets do not include equities.

#### ***Credit risk***

The CICL Group is exposed to credit risk in its invested assets and from receivables from third party reinsurers and brokers. The CICL Group's fixed income securities are exposed to potential loss in market value resulting from adverse changes in the borrower's ability to repay the underlying debt. Reinsurance recoverables may be exposed to loss if a change in the financial position of third party reinsurers affects their ability to respond to the CICL Group's insurance losses. Receivables from brokers are also exposed to loss from a change in the broker's financial position.

The CICL Group manages its investment credit risk through a conservative investment policy that is executed by carefully selected fund managers. All CICL Group and subsidiary assets are managed at the Catlin Group level by the Catlin Group Chief Investment Officer, operating within policy and instructions set by the Investment Committee of Catlin Group Limited's Board of Directors. As at June 30, 2006, 96% of the CICL Group's invested assets were rated AA-or Aa3 or better by either Standard & Poor's or Moody's, with an overall weighted average of AAA. The Catlin Group Chief Investment Officer monitors the performance of the Catlin Group's investment managers and their compliance with investment instructions.

Reinsurance recoverable credit risk is managed at the Catlin Group level through the Reinsurance Security Committee chaired by the Catlin Group Chief Financial Officer. This committee sets security standards for reinsurer approval, incorporating ratings by major rating agencies and considering current market information. The Security Standards Committee also sets maximums for exposure to any one third party reinsurance group.

The CICL Group's exposure to credit risk through its brokers has had no material effect on its financial statements over the past three years. Broker credit risk is monitored by the CICL Group and only those brokers that have been reviewed and approved by a dedicated committee at Catlin UK or senior management at Catlin Bermuda can be utilized.

#### ***Liquidity risk***

The CICL Group is required to generate sufficient cash flows to meet the short- and long-term cash requirements of its business operations.

The underwriting operations' short-term cash needs primarily consist of paying insurance loss and loss adjustment expenses, purchasing reinsurance and paying day-to-day operating expenses. The CICL Group is also required by various regulatory bodies to hold funds in trust accounts for the protection of insureds and claimants. Some regulatory bodies further require additional funds or other securities to be held against the possibility of a claim experience worse than generally expected. There are restrictions on the CICL Group's ability to withdraw certain of these funds.

The Catlin Group Chief Investment Officer monitors cash flow and manages investments to ensure the availability of cash or other security as required to meet these obligations. The treasurer maintains flexible debt facilities to supplement underwriting cash flow for unexpected large policyholder claim demands.

#### ***Interest rate risk***

The CICL Group's investment assets are subject to interest rate risk. The CICL Group's interest rate risk is concentrated principally in the United States and the United Kingdom and is highly sensitive to factors such as governmental monetary policies and domestic and international economic and political conditions. The estimated effect on the CICL Group's consolidated net assets of a 1% increase in interest rates would be a reduction in the fair value of fixed income assets of \$18 million as at June 30, 2006.

#### ***Foreign exchange risk***

The CICL Group's general policy is to invest in assets that match the currency in which it expects related liabilities to be paid. Stockholder's equity held in subsidiaries is kept in local currencies to the extent required to satisfy regulatory and other capital requirements. These holdings help ensure that capital held in local insurance units will be able to support the local insurance business irrespective of currency movements. However, these holdings may result in adverse effects on the CICL Group's reported stockholder's equity when expressed in US dollars.

The CICL Group publishes its financial statements in US dollars. Therefore, fluctuations in exchange rates for other currencies, such as the pound sterling, the Canadian dollar and the euro, into US dollars, will impact its reported financial condition, results of operations and cash flows from year to year. For 2006, approximately 72% of gross premiums written and 18% of invested assets and cash were denominated in currencies other than the US dollar. Foreign exchange translation adjustments, primarily between the pound sterling and the US dollar, impacted the CICL Group's net income by \$25.3 million in the first six months of 2006, and by \$(16.3) million, \$10.6 million and \$7.9 million in 2005, 2004 and 2003, respectively.

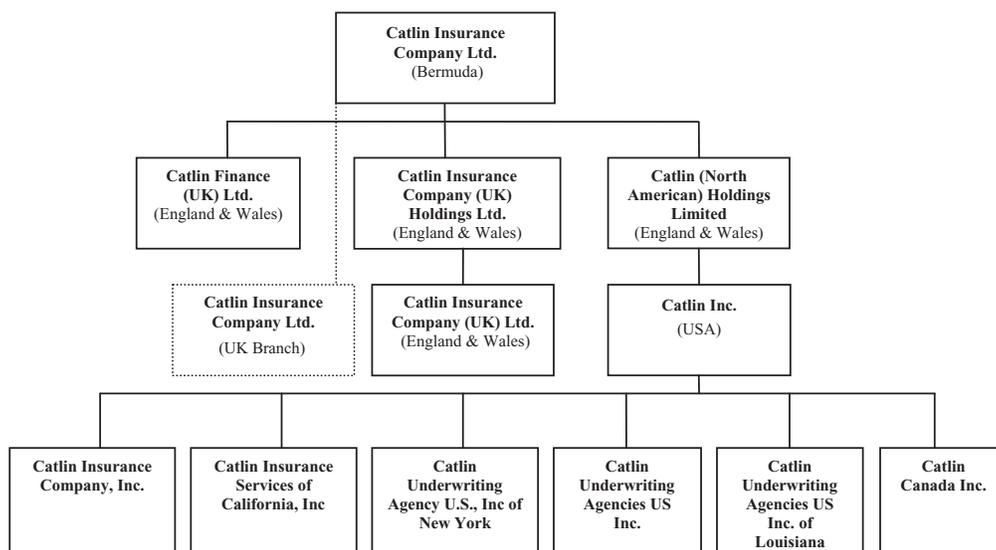
## DESCRIPTION OF CATLIN BERMUDA AND THE CICL GROUP

Catlin Bermuda is the Bermudian insurance and reinsurance subsidiary of Catlin Group Limited. Catlin Bermuda provides a wide range of property and casualty insurance and reinsurance products worldwide, including property catastrophe and per risk excess of loss treaty and casualty reinsurance products.

Catlin Bermuda is one of the principal operating subsidiaries of the Catlin Group. Through intra-Group reinsurance arrangements and capital support, it serves to centralize a significant proportion of the assets, capital and underwriting risk of all of the Catlin Group, within regulatory and other constraints.

Catlin Bermuda's subsidiaries include Catlin UK and CICI. Members of the CICL Group underwrite insurance and reinsurance for third parties and Catlin Bermuda reinsures risk written by other members of the Catlin Group. For the six months ended and as at June 30, 2006, the CICL Group's gross premiums written and total assets were \$465.2 million and \$3,111.6 million, respectively, representing 52% and 71% of the Catlin Group's total gross premiums written and total assets. Of the CICL Group's gross premiums written, \$221.9 million, or 48%, was assumed under reinsurance contracts with other companies in the Catlin Group which are outside the CICL Group. Of the remaining \$243.3 million in gross premiums written by the CICL Group on behalf of third parties, \$116.6 million, or 25% of total gross written premiums, was underwritten by Catlin UK and \$126.7 million, or 27% of total gross written premiums, was underwritten by Catlin Bermuda.

A chart showing the organization of the CICL Group appears below.



As wholly owned subsidiaries of the Catlin Group, the members of the CICL Group follow many of the same policies and procedures established by the Catlin Group. These policies and procedures include, but are not limited to: operating principles; strategy; distribution and marketing; IT systems; underwriting philosophy, approach, processes and controls; claims management; risk management, investment management; reinsurance; and reserving methodology. For more information about the Catlin Group, and a discussion of these policies and procedures, please refer to the section of this offering memorandum entitled "Description of the Catlin Group".

### Development of Catlin Bermuda

Catlin Bermuda was established by the Catlin Group in December 2000 as a Class 3 insurer in Bermuda, as the Catlin Group expanded from its base at Lloyd's of London.

In 2002, the Catlin Group raised \$482 million in new private equity capital, the majority of which was contributed as surplus to Catlin Bermuda, enabling Catlin Bermuda to obtain a Class 4 insurance license in Bermuda, secure an "A" (Excellent) rating from A.M. Best and to begin underwriting insurance and reinsurance.

Through Catlin Bermuda, the Catlin Group gained direct access to clients and their brokers that place significant amounts of business in the Bermuda market. In addition, Catlin Bermuda assumes significant volumes of intra-Group reinsurance on behalf of other Catlin Group subsidiaries.

Over the last three years, Catlin Bermuda has assembled in Bermuda a multi-disciplinary team of underwriters, actuaries, finance professionals, lawyers and support staff. Catlin Bermuda now has over 35 employees.

A UK branch of Catlin Bermuda was licensed by the UK Financial Services Authority and commenced trading from January 2004 to complement the Catlin Group's Lloyd's operations and to enable the Catlin Group to access UK small to medium size commercial accounts through non-Lloyd's and regional brokers. In 2005, the business that had been written by the UK branch was novated to a new Catlin Bermuda subsidiary, Catlin UK. Catlin UK complements the Catlin Syndicate by writing UK commercial business not traditionally placed at Lloyd's, particularly smaller and medium-sized commercial risks. Catlin UK also writes classes of business that are written by the Catlin Syndicate.

On May 25, 2006, CICI was established as part of the CICL Group to underwrite specialty classes of property/casualty business for US commercial clients. Four other operating subsidiaries of the CICL Group — Catlin Underwriting Agency US Inc., Catlin Underwriting Agencies of Louisiana Inc., Catlin Insurance Services of California Inc. and Catlin Canada Inc. — act as coverholders or managing general agents for various Catlin Group underwriting platforms.

#### **Related Party Reinsurance Contracts**

As at June 30, 2006 and December 31, 2005, there were three types of related party reinsurance contracts in place that ceded related party risk to the CICL Group:

- whole account qualifying quota share contracts of 10% on the 2004 year of account, 30% on the 2003 year of account and 20% on the 2002 year of account;
- a 50% whole account corporate quota share contract; and
- a long tail stop loss contract, covering certain long-tail casualty classes of business.

All of the above contracts cede Catlin Syndicate risk to Catlin Bermuda. In addition, there is a 60% whole account quota share contract, which cedes Catlin UK risk to Catlin Bermuda, which is eliminated on consolidation of the CICL Group. A 75% corporate quota share contract, ceding CICI risk to Catlin Bermuda, was entered into in the fourth quarter of 2006.

The qualifying quota share contracts on the 2002 and 2003 years of account were commuted in the fourth quarter of 2006.

At the end of 2004, the qualifying quota share, corporate quota share and the long tail stop loss contracts were in place. The corporate quota share was put in place at the end of 2004, covering 2004, 2005 and 2006 underwriting years. Because the corporate quota share contract was put in place at the end of 2004, the reinsurance for the 2004 underwriting year is deposit accounted, and not recorded as premium income, since it is considered to be a retrospective contract. The reinsurance provided thereunder for the 2005 underwriting year is accounted for as a normal reinsurance contract. As a result of this contract, related party reinsurance premiums increased substantially in 2005 compared to 2004.

At the end of 2003, the 30% qualifying quota share contract covering the 2003 year of account was in place, as well as the long tail stop loss contract.

## Loss and Loss Expense Reserves

Reserves for unpaid losses and loss expenses for the CICL Group for the six months ended June 30, 2006 and 2005 and for the years ended December 31, 2005, 2004 and 2003 were as follows:

	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(in thousands)				
Gross reserve for losses and loss expenses, beginning of year . . . . .	750,947	342,649	\$342,649	\$129,533	\$ 26,315
Net reserve for losses and loss expenses beginning of year . . . . .	714,775	332,506	332,506	129,533	26,315
Net incurred (released) losses and loss expenses for claims related to:					
Current year . . . . .	212,811	136,773	508,862	214,926	88,448
Prior years . . . . .	(4,648)	(4,845)	(33,175)	(14,895)	5,462
Total incurred losses and loss expenses . . . . .	208,163	131,928	475,687	200,031	93,910
Net paid losses and loss expenses for claims related to:					
Current year . . . . .	(18,860)	(7,053)	(11,934)	(17,140)	(43)
Prior year . . . . .	(46,772)	(9,657)	(33,291)	(390)	—
Total paid losses and loss expenses . . . . .	(65,632)	(16,710)	(45,225)	(17,530)	(43)
Foreign exchange adjustment . . . . .	43,486	(21,134)	(48,193)	20,472	9,351
Net reserve for losses and loss expenses end of year . . . . .	900,792	426,490	714,775	332,506	129,533
Reinsurance recoverable on unpaid loss and loss expenses . . . . .	37,191	15,148	36,172	10,143	—
Gross reserve for losses and loss expenses, end of year . . . . .	937,983	441,638	\$750,947	\$342,649	\$129,533

For further information on the loss reserves of the CICL Group, see “Description of the Catlin Group—Loss and Loss Expense Reserves”.

## Investments

The CICL Group holds the majority of the Catlin Group’s investment assets, and the Catlin Group’s investment strategy applies equally to the CICL Group. This investment strategy seeks to preserve its capital and maintain liquidity for the prompt payment of claims, while maximizing the investment return of high quality, diversified invested assets. It also seeks to match assets and liabilities by currency and duration. The Catlin Group uses expert external investment managers to manage its investments.

As at December 31, 2005, fixed income securities and cash and cash equivalents held by the CICL Group totaled \$1.102 billion. As at June 30, 2006, fixed income securities and cash and cash equivalents held by the CICL Group totaled \$1.251 billion. The CICL Group’s fixed income portfolio of \$785.5 million consisted of US and non-US sovereign government obligations, corporate bonds and short-term securities. Of these assets, 94% were rated AA– or Aa3 or better by either Standard & Poor’s or Moody’s at December 31, 2005 and 96% were so rated at June 30, 2006, with an overall weighted average rating at both times of AAA. The CICL Group’s investment guidelines limit its aggregate exposure to any single issuer to 5% for securities rated AA–/Aa3 or above, and to 2% of the CICL Group’s portfolio for securities rated between A–/A3 to A+/A1, other than with respect to US Government and Agency securities and securities issued by other member governments of the Organization for Economic Co-operation and Development (OECD).

The fair values and amortized costs of fixed maturities as at June 30, 2006 and 2005 and December 31, 2005, 2004 and 2003 were as follows:

	As at June 30,				As at December 31,					
	2006		2005		2005		2004		2003	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(in thousands)									
US government and agencies ..	\$501,258	\$519,479	\$463,886	\$457,148	\$500,170	\$504,807	\$434,337	\$421,807	\$321,998	\$316,350
Non-US governments .....	147,837	148,913	53,640	53,206	131,390	131,241	37,871	37,858	0	0
Corporate securities .....	62,230	63,438	81,248	82,120	76,112	77,295	89,795	90,301	76,020	75,935
Asset-backed securities .....	74,137	75,377	67,952	68,359	61,347	62,316	71,282	71,544	25,040	25,601
Total fixed maturities .....	<u>\$785,462</u>	<u>\$807,207</u>	<u>\$666,726</u>	<u>\$660,833</u>	<u>\$769,019</u>	<u>\$775,659</u>	<u>\$633,285</u>	<u>\$621,510</u>	<u>\$423,058</u>	<u>\$417,306</u>

The composition of the amortized cost of fixed maturities by ratings assigned by ratings agencies as at June 30, 2006 and 2005 and December 31, 2005, 2004 and 2003 were as follows:

	As at June 30,				As at December 31,					
	2006		2005		2005		2004		2003	
	Amortized Cost	%	Amortized Cost	%	Amortized Cost	%	Amortized Cost	%	Amortized Cost	%
	(in thousands, except percentages)									
US government and agencies	\$519,479	64%	\$457,148	69%	\$504,807	65%	\$428,867	69%	\$316,350	76%
Non-US governments .....	148,913	18%	53,206	8%	131,241	17%	0	0%	0	0%
AAA .....	78,082	10%	82,740	13%	71,625	9%	116,836	19%	36,447	9%
AA .....	28,354	4%	17,013	3%	23,673	3%	22,576	4%	17,756	4%
A .....	32,379	4%	50,726	7%	44,313	6%	52,829	8%	46,753	11%
BBB .....	0	0%	0	0%	0	0%	402	0%	0	0%
Total fixed maturities .....	<u>\$807,207</u>	<u>100%</u>	<u>\$660,833</u>	<u>100%</u>	<u>\$775,659</u>	<u>100%</u>	<u>\$621,510</u>	<u>100%</u>	<u>\$417,306</u>	<u>100%</u>

Fixed maturities as at June 30, 2006 and December 31, 2005, 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.

	As at June 30, 2006		As at December 31, 2005	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(in thousands)			
Due in one year or less .....	\$139,118	\$140,124	\$ 20,666	\$ 20,916
Due after one through five years .....	239,081	243,603	299,903	301,366
Due after five years through ten years .....	332,581	341,535	379,513	383,374
Due after ten years .....	545	568	7,590	7,687
	711,325	731,830	707,672	713,343
Asset-backed securities .....	74,137	75,377	61,347	62,316
Total .....	<u>\$785,462</u>	<u>\$807,207</u>	<u>\$769,019</u>	<u>\$775,659</u>

The following table shows net investment income, net realized (losses)/gains on investment and total investment income including unrealized investment (losses) gains:

	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2006	2005	2005	2004	2003
	(in thousands)				
Net investment income .....	\$ 27,478	21,978	\$ 46,781	\$28,796	\$14,572
Net realized gains on investments .....	(2,003)	1,398	349	2,685	172
Net unrealized (losses)/gains on investments .....	<u>(15,079)</u>	<u>(5,858)</u>	<u>(18,339)</u>	<u>6,021</u>	<u>5,582</u>
<b>Total investment return .....</b>	<u>\$ 10,396</u>	<u>17,518</u>	<u>\$ 28,791</u>	<u>\$37,502</u>	<u>\$20,326</u>

For more information, see “Description of the Catlin Group — Investments”.

### **Financial Strength Ratings**

Ratings by independent agencies are an important factor in establishing the competitive position of insurance companies and their ability to market and sell their products. In recent years, particularly in light of the unprecedented losses sustained by the property and casualty insurance industry following 11 September 2001 and the 2005 hurricanes in the United States, financial strength has become an increasingly important competitive factor. Clients and brokers focus on the financial strength of insurers and reinsurers, relying largely on the financial strength ratings assigned by independent credit rating agencies such as A.M. Best and Standard & Poor’s, to differentiate between alternative insurance providers. Rating organizations periodically review the financial positions of insurers, including the Catlin Group underwriting platforms.

All three operating Catlin Group underwriting platforms, including Catlin Bermuda, have a financial strength rating of “A” (Excellent) from A.M. Best. This rating is the third highest of the 15 rating levels assigned by A.M. Best. These ratings reflect A.M. Best’s opinions of the ability of the Catlin Group underwriting platforms to meet long-term obligations to policyholders, and are not evaluations directed to investors in the Shares offered pursuant to this offering memorandum, and are not recommendations to buy, sell or hold the Shares. The ratings are subject to periodic review by A.M. Best and may be revised upwards or downwards or be revoked at A.M. Best’s sole discretion. A.M. Best maintains a letter scale rating from “A++” (Superior) to “F” (in liquidation). A.M. Best has recently placed the financial strength and issuer credit ratings of Catlin Bermuda and other Catlin Group companies under review with negative implications, and Catlin Group Limited is actively engaged with A.M. Best to alleviate any concerns that A.M. Best may have. A.M. Best has announced that it will complete its review in the first quarter of 2007.

In May 2006, Standard & Poor’s Ratings Services assigned a financial strength rating of “A–” to both Catlin Bermuda and Catlin UK, with a stable outlook for both entities. Standard & Poor’s maintains a letter scale rating from “AAA” (Extremely Strong) to “R” (Regulatory Action). Standard & Poor’s assigned a Lloyd’s Syndicate Assessment of “4–” to the Catlin Syndicate, reflecting “low dependency”, and the outlook for the Catlin Syndicate was stable.

Other agencies may rate the Catlin Group, or one or more of the Catlin Group’s subsidiaries, on an unsolicited basis, particularly in connection with standardized assessments of Lloyd’s syndicates based solely on syndicate financial information made available to the rating agencies by Lloyd’s or other sources.

## DESCRIPTION OF THE CATLIN GROUP

### Introduction

The Catlin Group is an international specialty property and casualty insurer and reinsurer which is focused on achieving consistent underwriting profits and returns on equity across the insurance industry's cycle. The Catlin Group underwrites a broad variety of classes of specialty insurance and reinsurance. The Catlin Group's holding company, Catlin Group Limited, and Catlin Bermuda, the issuer of the Shares, are based in Bermuda. Catlin Group Limited's common shares have been traded on the London Stock Exchange since April 2004.

Over its 20 year-plus history, the Catlin Group has expanded from its traditional base at Lloyd's and has built a unique and efficient infrastructure which includes a Bermuda holding company; underwriting platforms at Lloyd's, in Bermuda, in the United States and in the UK company market; and a network of owned international offices in North America, the United Kingdom, Continental Europe, Asia and Australia. This structure provides the Catlin Group with considerable scope for earnings growth and a high degree of capital flexibility and allows the Catlin Group to participate in the world's major insurance and reinsurance marketplaces.

The Catlin Group's original underwriting platform consists of its Lloyd's operations, now conducted through the Catlin Syndicate. The Catlin Syndicate is funded entirely by the Catlin Group and is managed by Catlin Underwriting Agencies Limited, or CUAL. The Catlin Syndicate is the largest syndicate at Lloyd's on the basis of 2007 premium capacity. The results of the Catlin Syndicate and its predecessor, Syndicate 1003, have consistently outperformed those of the Lloyd's market as a whole over the past 20 years, as measured by return on allocated capacity, on a Lloyd's accounting basis.

The Catlin Group commenced expansion from its base at Lloyd's of London in 1999. In 2002, the Catlin Group began underwriting business through Catlin Bermuda. With the establishment of Catlin Bermuda, the Catlin Group gained direct access to clients and their brokers that place significant amounts of business in the Bermuda market. In addition, Catlin Bermuda underwrites significant volumes of intra-group reinsurance on behalf of other Catlin Group subsidiaries.

Today, the Catlin Group maintains four underwriting platforms:

- the Catlin Syndicate — Syndicate 2003 at Lloyd's which is managed by Catlin Underwriting Agencies Limited;
- Catlin Bermuda — a Bermuda-domiciled Class 4 insurer and reinsurer;
- Catlin UK — an FSA-regulated UK insurer; and
- Catlin US — CICI, a Texas-domiciled insurer expected to commence operations soon, together with Wellington Specialty Insurance Company, a non-admitted excess and surplus lines carrier, and various other underwriting offices in the US.

In addition to the underwriting platforms, Catlin maintains a network of international offices that source business locally and regionally for the underwriting platforms.

On December 18, 2006, Catlin Group Limited announced that its recommended offer to acquire all of the issued and to be issued share capital of Wellington had been declared unconditional.

The offer involved an offer of both cash and shares of Catlin Group Limited to Wellington shareholders, and valued each Wellington share at approximately 122 pence. This valued the issued share capital of Wellington at approximately £602 million. Wellington is the holding company of an international insurance and reinsurance group. The core of the Wellington Group's business is in the Lloyd's insurance market, where the Wellington Group manages and underwrites a diversified book of insurance and reinsurance business. The nature and scope of the Wellington Group's business is described in more detail below under the heading “— The Wellington offer”.

The Catlin Group's forward-looking approach to business, realistic and flexible approach to underwriting cycles and commitment to earning a gross underwriting profit have allowed it to grow significantly over its

20 year history. The Catlin Group's 2005 performance was significantly impacted by losses arising from Hurricanes Katrina, Rita and Wilma and it reported net income of \$19.7 million, as compared with net income of \$154.1 million in 2004, representing a 2.1% return on average equity, as compared with a 19.1% return on average equity in 2004.

Gross premiums written amounted to \$1.387 billion in 2005, as compared with \$1.434 billion in 2004. The reduction in gross premiums written reflected the Catlin Group's firm commitment to underwriting discipline as the Catlin Group did not underwrite business at rates that it did not consider to be adequate. For the first six months of 2006, gross premiums written amounted to \$903.1 million, as compared with \$781.7 million for the six months ended June 30, 2005. The Catlin Group had a combined ratio of 103.1% in 2005, as compared with 89.4% in 2004. For the first six months of 2006, the Catlin Group had a combined ratio of 84.7%, as compared with 82.3% for the same period in 2005.

As at December 31, 2005, the Catlin Group had total assets of \$3.860 billion compared with \$3.373 billion as at December 31, 2004 and total stockholders' equity of \$931.1 million compared with \$971.2 million as at December 31, 2004. As at June 30, 2006, the Catlin Group had total assets of \$4.403 billion compared with \$3.568 billion as at June 30, 2005 and total stockholders' equity of \$1.091 billion compared with \$1.057 billion as at June 30, 2005. The Catlin Group's consolidated financial statements for the years ended December 31, 2005, 2004 and 2003, and for the six months ended June 30, 2006, are available publicly on its website: '<http://www.catlin.com/catlin/investor/reports>' (but, for the avoidance of doubt, such consolidated financial statements are not, and shall not be deemed to be, incorporated by reference in this offering memorandum).

The Catlin Syndicate, Catlin Bermuda and Catlin UK have a financial strength rating of "A" (Excellent) from A.M. Best Company. Wellington Speciality Insurance Company has a rating of "A-" (Excellent) from A.M. Best. A.M. Best has recently placed the financial strength and issuer credit ratings of Catlin Bermuda and other Catlin Group companies under review with negative implications. Catlin Group Limited is actively engaged with A.M. Best to alleviate any concerns that A.M. Best may have. A.M. Best has announced that it will complete its review in the first quarter of 2007. In May 2006, Standard and Poor's assigned a financial strength rating of "A" to both Catlin Bermuda and Catlin UK, and an interactive Lloyd's Syndicate Assessment of "4" (low dependency) to the Catlin Syndicate.

## **Operating Principles**

The Catlin Group has successfully grown from a Lloyd's marine syndicate with gross premiums written of \$6 million (on a Lloyd's accounting basis) in 1985, its first full year of operation, to an international insurance and reinsurance group with \$1.387 billion in gross premiums written in 2005 and \$903.1 million in the first six months of 2006. The Catlin Group now underwrites a wide range of business classes at Lloyd's, in Bermuda, in the UK company market and in the US. While during this period numerous competitors at Lloyd's and in other insurance markets have been established and in some cases have exited the market fully or partially, the Catlin Group's record of managed growth and financial success over the past 20 years distinguishes it from many of its peers.

The Catlin Group has established a core set of operating principles:

- ***Forward-looking approach***

The Catlin Group takes a long-term view of business and market conditions. The Catlin Group aims to anticipate future market trends rather than simply react to current conditions. It seeks to concentrate on business activities that will produce long-term, sustainable earnings across underwriting cycles.

- ***Attractive return on capital***

Property and casualty insurance and reinsurance is a cyclical business, with cycles often varying across different business classes. Returns on capital can vary greatly, depending upon market conditions and the occurrence of catastrophic losses. While it is not possible for an insurer or reinsurer to guarantee a minimum

annual return on capital, the Catlin Group strives to produce attractive returns on capital and, over the longer term, to rank consistently among the top performing companies in the insurance and reinsurance sector.

- ***Realistic and flexible approach to underwriting cycles***

The Catlin Group seeks to increase premium volume during periods of favorable rates and conditions and focus on profit rather than market share during times of declining market conditions. This philosophy extends to the specific underwriting cycles that are inherent to individual classes of business. Because it underwrites a diversified book of business, the Catlin Group aims to profit from the specific favorable underwriting opportunities that can exist even when general market conditions are adverse.

- ***Focus on gross underwriting profits***

Class underwriters report on a gross of reinsurance basis. The Catlin Group expects each class to produce a gross profit in the aggregate through its cycle.

- ***Diversification by class and distribution***

The Catlin Group actively explores new classes of business and geographic markets to enlarge its core earnings base. Over the years, the Catlin Group has diversified from its origins as a marine syndicate at Lloyd's to write numerous classes of specialty property and casualty business, seeking opportunities for underwriting profit and the improvement of the Catlin Group's spread of uncorrelated risk. The Catlin Group seeks a balance between volatile and non-volatile classes of business. Entry into a new region is carefully planned in keeping with the Catlin Group's forward-looking business philosophy.

- ***Conservative reserving philosophy***

The Catlin Group sets reserves conservatively within the actuarial range of estimates, reflecting inherent uncertainties in estimating insurance and reinsurance liabilities.

- ***Underwriting and corporate structure which maximizes scope for earnings growth and provides flexibility***

The Catlin Group has established a distinctive and effective "multiple platform" underwriting structure (the Catlin Syndicate, Catlin Bermuda, Catlin UK and Catlin US), which provides the Catlin Group with access to complementary business opportunities in the world's major insurance and reinsurance markets. In addition to its underwriting platforms, the Catlin Group has also established a network of offices in the United States, United Kingdom, Asia, Australia and continental Europe, which provides its underwriting platforms with flows of business that would otherwise be placed with local carriers, and which allows the Catlin Group to strengthen relationships with local clients and retail brokers. Catlin Group Limited, which is the holding company for the Catlin Group, is based in Bermuda. The Catlin Group owns 100% of its Lloyd's syndicate capacity (since the 2003 year of account) as well as its other underwriting platforms. This structure enables the Catlin Group to utilize its capital in a flexible and tax-efficient manner.

- ***Emphasis on capital preservation***

The Catlin Group seeks to underwrite business that presents the highest returns against the least risk, both to maximize profits and to protect its capital base. The Catlin Group actively looks for opportunities to write new classes of business which produce an underwriting profit and, where possible, are uncorrelated to its existing portfolio. When making underwriting decisions, the Catlin Group's underwriters work to understand thoroughly the maximum potential downside risk associated with the business and compare that risk with its potential profitability. The Catlin Group uses outwards third party reinsurance both to protect its capital base and to increase underwriting capacity. The Catlin Group adopts a risk averse approach in the management of its investments with a portfolio comprised principally of highly rated fixed income securities and cash. This emphasis on capital preservation aims to maximize returns for investors by allowing the Catlin Group to respond quickly as market opportunities arise.

- *Maximization of relationships with core clients, brokers and other counterparties*

The Catlin Group aims to support core clients whose business is profitable over the long term, both during periods of constrained market capacity and after a large loss, recognizing that a lasting profitable relationship should not be broken because of short term considerations. The Catlin Group works closely with core clients to provide innovative solutions to their needs and with brokers to offer consistent support and dependable capacity. The Catlin Group seeks transparent relationships with all its counterparties.

- *Continuous improvement of technical capabilities*

The Catlin Group recognizes that ongoing investment in people, systems, processes and controls is essential to compete effectively. As the Catlin Group grows, it continues to recruit high quality professionals in all areas of its operations to provide further depth to an already strong team. The Catlin Group also continues to develop its proprietary underwriting system and data warehouse that have been designed to the specifications of its underwriters and that allow Catlin underwriting platforms and offices to share a single database.

- *Culture that stresses open communication and accountability for actions*

As it has grown, the Catlin Group has retained a corporate culture that gives underwriters and other key employees significant responsibility for business decisions. The Catlin Group culture is based on open communication and transparency, and is supported by a comprehensive control framework which enables the Catlin Group to monitor effectively decisions made by employees. This culture includes a Catlin Group mentality, including a single profit-related bonus scheme for the Catlin Group, that encourages employees to collaborate, to share information and to ensure that business is underwritten by the most appropriate platform. As well as contributing to the Catlin Group's success, this culture has also resulted in a low level of staff turnover, particularly at the management and underwriter level.

## **Strategy**

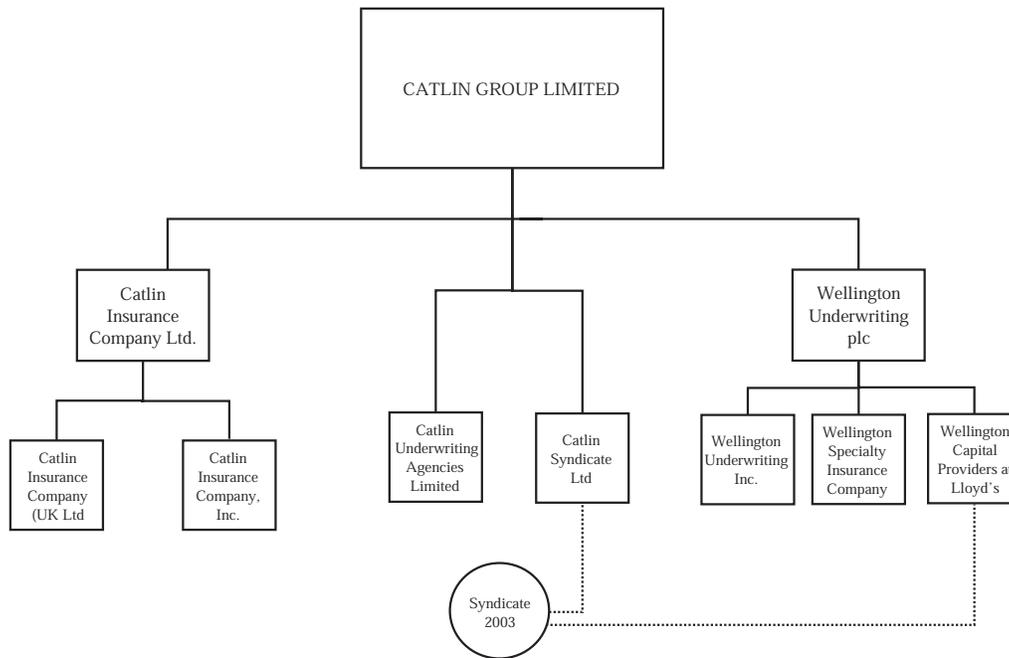
In light of the principles described above, the Catlin Group has formulated an integrated operating strategy, including the CICL Group, of which the primary objectives are:

- To develop and utilize the Catlin Group's distinctive "multiple platform" underwriting structure to maximize earnings and to produce controlled, sustainable and diversified growth;
- To strengthen further its distribution network to provide the Catlin Group with increased access to business in diverse geographic regions and business classes;
- To manage its capital efficiently and to adjust underwriting strategies to exploit prevailing conditions, both in the overall marketplace and in individual classes of business;
- To manage risk through effective underwriting controls and procedures, rigorous analytical review, portfolio diversification, and the efficient use of reinsurance;
- To continue enhancing and improving business processes and controls; and
- To maintain underwriting talent, discipline and focus.

## **Evolution**

Having established a superior underwriting track record and leadership positions across a number of business classes in the Lloyd's market during the first 15 years of its existence, the Catlin Group has since 1995 sought to build on that success by building its capital base and its international infrastructure to take advantage of opportunities in the specialty insurance and reinsurance markets worldwide, with a focus on markets offering the potential for good returns and requiring specialist skills. The Catlin Group's expansion of its underwriting platforms and offices provides direct access to the world's major insurance markets and enables the Catlin Group to establish and maintain closer ties to local markets and the Catlin Group's policyholders and their brokers.

A chart showing a summary of the Catlin Group's current structure appears below.



A summary of the evolution of the Catlin Group is set out below:

- In 1984, Catlin Underwriting Agencies Limited was established by Stephen Catlin to manage newly formed Lloyd's marine Syndicate 1003, which commenced underwriting for the 1985 year of account on behalf of capital provided by traditional Lloyd's Names.
- From 1985 to 1995, Syndicate 1003 grew under CUAL's management from a start-up operation with capacity of £6 million (\$10 million) into one of the largest syndicates trading at Lloyd's with capacity of £170 million (\$304 million). Syndicate 1003 established a track record as one of the most successful syndicates at Lloyd's, not only by outperforming the market average since 1988 but also by closing every year of account at a profit during a period which saw unprecedented losses at Lloyd's.
- In 1995, following an investment in the Catlin Group by Western General Insurance Ltd. of Bermuda for a majority ownership stake, the Catlin Syndicate was formed to write in parallel with Syndicate 1003 for the 1996 Lloyd's year of account under the common management of CUAL. The Catlin Syndicate was and is entirely capitalized by the Catlin Group through Catlin Syndicate Limited, a corporate member of Lloyd's, while Syndicate 1003's capital continued to be supplied by the traditional Lloyd's Names. In late 2002, the Catlin Group purchased the residual capacity of Syndicate 1003 from external capital providers. This capacity was assumed by the Catlin Syndicate, thereby further increasing its capacity at Lloyd's.
- In 1999, building on its capital base and underwriting skills and in furtherance of its strategy of expanding its distribution and geographical diversification, the Catlin Group established offices outside the United Kingdom, taking advantage of selective specialty insurance and reinsurance opportunities:
  - Catlin Asia Pte Ltd in Singapore and Catlin Labuan Limited in Malaysia were established to underwrite regional marine and non-marine business on behalf of Syndicate 1003 and the Catlin Syndicate; and
  - In the same year, the Catlin Group acquired Catlin Underwriting Agency US Inc. in Houston and Catlin Underwriting Agency US Inc. of Louisiana in New Orleans to underwrite US surplus lines business (primarily energy and medical malpractice risks) on behalf of Syndicate 1003 and the Catlin Syndicate.
- The Catlin Group has carried forward this strategy by opening further international offices in Cologne (2003), Sydney (2004), Antwerp (2005), Toronto (2005), Guernsey (2005), San Francisco (2005) and

during 2006, Calgary, Hong Kong, New York City and Atlanta. These offices generate flows of business on behalf of the underwriting platforms that would otherwise usually be placed in local markets. These offices also allow the Catlin Group to strengthen its relationships with clients and brokers in these regions.

- The Catlin Group has also carried forward this strategy by opening UK offices in Glasgow (2001), Leeds (2003), Derby (2003), Birmingham (2005), Watford (2005), Tonbridge (2006) and creating a joint-venture company, Brighter Business Limited, all of which underwrite business on behalf of Catlin UK or the Catlin Syndicate.
- In 2001, the Catlin Group saw an opportunity to expand its capital base and achieve attractive returns on capital across most classes of business, given the favorable pricing and underwriting environment. This led the Catlin Group to raise \$482 million in equity capital through the sale of equity interests in the Catlin Group Limited to a consortium of private investors in two separate tranches: \$375 million in July 2002 and \$107 million in November 2002. This additional capital was used to fund the Catlin Group's establishment of its corporate underwriting platforms, to purchase the entire capacity of Syndicate 1003 from external capital providers and to increase the underwriting capacity of the Catlin Syndicate.
- In August 2002, Catlin Bermuda began to underwrite business, having been established in Bermuda in 2000. Catlin Bermuda is licensed as a Class 4 insurance company under Bermuda law, authorizing it to write virtually all classes of non-life insurance and reinsurance. The Catlin Group's presence in Bermuda allows it to participate in the active and growing Bermuda market and brings it closer to clients and their brokers who place significant amounts of business in that market. The majority of the Catlin Group's capital is maintained within Catlin Bermuda, which provides the Catlin Group with increased flexibility and efficiency of capital usage while maximizing its credit ratings.
- In December 2003, the Catlin Group received FSA approval to establish a UK branch of Catlin Bermuda in London and began to underwrite through this third platform in January 2004. In 2005, Catlin UK was established as a subsidiary of Catlin Bermuda, and the business written by the UK branch was transferred to this new company. Catlin UK complements the Catlin Syndicate by writing UK commercial business not traditionally placed at Lloyd's, particularly smaller and medium-sized commercial risks. Catlin UK also writes classes of business that are written by the Catlin Syndicate.
- In 2004, with the pricing environment remaining favorable and attractive returns on capital being available for most classes of business, the Catlin Group again sought to increase its capitalization through an initial public offering of Common Shares. The Catlin Group raised \$182.6 million, net of expenses, through the primary offering of 31.2 million new Common Shares. Catlin Group Limited shares began trading unconditionally on the London Stock Exchange in April 2004.
- In May 2006, Catlin Inc. completed the acquisition of a shell insurance company which is an admitted insurer in 27 US states. The company has been renamed Catlin Insurance Company, Inc. (CICI) and will underwrite specialty classes of property/casualty business for US commercial clients. CICI is a subsidiary of Catlin Inc. and part of the CICL Group.

## **Recent Developments**

On March 9, 2006, Catlin Group Limited successfully placed 7,704,900 new common shares of US\$0.01, each at a placing price of 500 pence per share. The placing raised approximately \$65 million, net of expenses.

The Catlin Group released its unaudited interim results for the six months to June 30, 2006 on 8 September 2006. At that time the Catlin Group reported record net income of \$147.3 million (June 30, 2005: \$111.2 million). Gross premiums written increased by 15.5% to \$903.1 million (June 30, 2005: \$781.7 million). At that time, the Catlin Group also reported on the positive rating environment in catastrophe exposed classes of business following the 2005 hurricanes in the United States. The Catlin Group reported that weighted average premium rates for catastrophe exposed classes of business rose by 37% during the first six months of 2006, while weighted average premium rates for other classes of business decreased by 2%. Weighted average premium rates for all classes increased by 12%.

The underlying trends that the Catlin Group experienced in the period ended June 30, 2006 remained largely unchanged during the remainder of the year, with both premium volume and loss activity remaining within management's expectations. The rating environment continued to be favorable. 2006 was a relatively catastrophe-free year, and claims experience for the non-catastrophe-exposed portfolios has been generally favorable. The Catlin Group's underwriting portfolio performed strongly overall. The 2007 renewal season has been broadly in line with expectations. Whilst rates and conditions for catastrophe-exposed business continued to be robust, rates for some non-catastrophe-exposed classes continued to be under pressure. Rates are currently adequate for most classes of business underwritten by the Catlin Group.

On November 17, 2006, Catlin Bermuda entered into a three year catastrophe swap agreement that provides up to \$200.25 million in coverage in the event of a series of severe natural catastrophes. Catlin Bermuda has purchased the catastrophe swap from a special purpose vehicle, Bay Haven Limited. Bay Haven has issued to investors \$200.25 million in three-year floating rate notes, divided into Class A and Class B notes. The proceeds of those notes comprise the collateral for Bay Haven's obligations to Catlin Bermuda under the catastrophe swap.

The catastrophe swap responds to 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 Catlin Bermuda \$33.375 million per covered risk event thereafter, up to a maximum of six events. The aggregate limit payable to Catlin Bermuda is \$200.25 million.

The categories of risk events covered by the 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 catastrophe swap will respond to multiple occurrences of a given category of risk event, if more than one qualifying US hurricane occurs during the period. The catastrophe swap will be triggered for US risk events, if aggregate insurance industry losses, as estimated by Property Claims Services, exceed defined threshold amounts. Coverage for non-US risk events will be triggered if specific parametric criteria, such as wind speeds or ground motions, were met or exceeded. The first two events paid under the catastrophe swap will impact the Class B notes; subsequent events, up to the limit of six events over the three year period, will impact the Class A notes.

In addition, on November 17, 2006 Catlin Bermuda entered into a further catastrophe 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.

On December 18, 2006, Catlin Group Limited announced that its recommended offer to acquire all of the issued and to be issued share capital of Wellington had been declared unconditional.

The offer involved an offer of both cash and shares of Catlin Group Limited to Wellington shareholders, and valued each Wellington share at approximately 122 pence. This valued the issued share capital of Wellington at approximately £602 million. Wellington is the holding company of an international insurance and reinsurance group. The core of the Wellington Group's business is in the Lloyd's insurance market, where the Wellington Group manages and underwrites a diversified book of insurance and reinsurance business. The nature and scope of the Wellington Group's business is described in more detail below under the heading "— The Wellington offer".

The Wellington acquisition is expected to have a direct impact on Catlin Bermuda. As discussed below in "Related Party Transactions — Intra-group Reinsurance Contracts", a significant portion of the Catlin Group's risks are ceded to us through intra-group reinsurance contracts. The acquisition of Wellington is expected to increase the premiums written by the Catlin Group, and as a result the intra-group reinsurance premium flowing to Catlin Bermuda is expected to increase as well.

## **Industry Overview**

Historically, the property and casualty insurance and reinsurance industry has been cyclical, characterized by periods of favorable market conditions with high premium levels followed by periods of price competition, with

some variation between individual classes of business. During 2001, a number of factors combined to create an attractive pricing and underwriting environment. Factors such as the losses sustained by insurers as a result of September 11, the need by many insurers worldwide to strengthen loss reserves due to deterioration from prior years, and poor investment returns from the equity market have significantly eroded the combined capital of the industry. The resulting loss of capacity, the rating downgrades of certain insurers and reinsurers and the full or partial exit of a number of market participants resulted in sharp rate increases and improved underwriting terms across many classes of business. Well-capitalized insurance and reinsurance companies with access to diverse markets have been able to benefit significantly from these opportunities.

Average premium rates increased significantly over the following three years, fuelled by the reduced underwriting capacity and a reaction to historical losses, together with an increased demand for insurance and reinsurance capacity in certain sectors. In addition to improved rates, insurers and reinsurers were able to introduce more favorable underwriting terms and conditions. This environment of improved underwriting and pricing discipline created the opportunity for companies to generate higher profitability and to preserve or improve financial strength. In addition, as individual insurance and reinsurance classes experience varying underwriting cycles and pricing trends, companies with access to different business classes and geographic regions have significant prospects to capture specific business opportunities.

While rates for many classes of business began to decrease during late 2004 and in 2005 despite heavier than expected hurricane losses in the second half of 2004, market conditions again hardened, particularly for catastrophe exposed business, following the record hurricane losses of 2005. These losses included Hurricane Katrina, which devastated the US Gulf Coast, including New Orleans, and stands as the largest insured loss event on record; Hurricane Rita, which caused extensive damage to the Texas and Louisiana coasts, as well as energy installations in the Gulf of Mexico; and Hurricane Wilma, which caused heavy damage to sections of Florida. These losses reduced insurers' profits worldwide and eroded the capital of some insurers, particularly those which specialize in underwriting catastrophe reinsurance and other coverages with significant hurricane exposures. Insurers worldwide reported that rates for classes of business impacted by the 2005 hurricanes in the United States rose significantly during the January 1 and July 1, 2006 renewal seasons.

## **Competition**

The international insurance and reinsurance markets are highly competitive, encompassing a range of niche and multi-product insurance and reinsurance underwriters. The Catlin Group's principal competitors vary by sector. At Lloyd's, key competitors include syndicates managed by Amlin, Beazley, Brit, Hiscox, Liberty, Limit and Kiln. In the UK outside of Lloyd's, key competitors include multi-line insurers such as Royal & SunAlliance, Aviva, and Zurich Financial Services, together with the London operations of many leading international insurers and reinsurers. The Bermuda market includes established underwriters formed in the wake of the capacity shortage of the mid-1980s, such as Ace and XL; following Hurricane Andrew in 1992, in response to the capacity crisis in the property catastrophe reinsurance sector, such as Renaissance Re, IPC Re and Partner Re; post-September 11, 2001, such as Allied World, Aspen, Axis, Arch, Endurance Specialty, Montpelier Re and Platinum; or following the 2005 hurricanes in the United States, including Amlin Bermuda, Hiscox Bermuda and Lancashire. Another group of insurers and reinsurers participate globally (and/or in the UK); these companies include Munich Re, Swiss Re, FM Global, Industrial Risk Insurers, Hannover Re and units of American International Group, Berkshire Hathaway and St Paul-Travelers.

Insurers' ability to compete effectively in their target sectors is predicated on numerous factors, including:

- Experience and skill of the management team and underwriters;
- Breadth and depth of broker and intermediary relationships;
- Access to clients across markets and regions;
- Range of products offered;
- Capital strength;
- Attractiveness of rates, terms and client service;

- Extent of regulatory licenses obtained and maintained; and
- Financial strength ratings.

In recent years, particularly in light of the unprecedented losses sustained by the property and casualty insurance industry following September 11 and the 2005 hurricanes in the United States, financial strength has become an increasingly important competitive factor. Clients and brokers focus on the financial strength of insurers and reinsurers, relying largely on the financial strength ratings assigned by independent credit rating agencies such as A.M. Best and Standard & Poor's, to differentiate between alternative insurance providers. Many prominent insurers and reinsurers have seen their financial strength ratings downgraded over the past five years, including Munich Re, Swiss Re, Allianz, Axa, Gerling, Scor, XL, Montpelier Re and GE Employers Re.

## **Business Segments**

The Catlin Group underwrites specialty classes of property and casualty insurance and reinsurance for a worldwide client base through its underwriting platforms, the Catlin Syndicate, Catlin Bermuda and Catlin UK. Operations of a fourth platform, Catlin US, are expected to commence soon. Business is introduced to those platforms by third-party brokers, inter-group reinsurance and through the Catlin Group's network of international offices that underwrite business on behalf of the Catlin Group's underwriting platforms. These offices are located in the United States, United Kingdom, Canada, Germany, Belgium, Guernsey, Singapore, Malaysia, Hong Kong and Australia. The Catlin Group has established itself as a leader within Lloyd's for numerous classes of business, including property catastrophe, motor excess of loss, energy, marine hull and liability, specie and terrorism business. The Catlin Syndicate (and its predecessor, Syndicate 1003) has been ranked among the top performing syndicates at Lloyd's during the past 20 years. Building on its strength and success in the Lloyd's market, in the past five years the Catlin Group has adopted a "multiple platform" underwriting strategy. While remaining committed to the Lloyd's market, this strategy which has included the establishment of Catlin Bermuda, Catlin U.K. and Catlin US allows the Catlin Group to underwrite business worldwide and provides increased flexibility with regard to the Catlin Group's allocation of capital and optimization of returns.

The Catlin Group currently has four reporting segments:

- *Catlin Syndicate Direct* comprises direct insurance underwritten by the Catlin Syndicate and encompasses a diverse group of business classes, including property, casualty, energy, marine, aerospace and other business classes. This segment generated gross premiums written of \$698.8 million for the year ended December 31, 2005 and \$453.3 million for the first six months of 2006.
- *Catlin Syndicate Reinsurance* comprises reinsurance underwritten by the Catlin Syndicate and includes property catastrophe and per-risk excess, proportional treaty, marine and aviation excess of loss, casualty reinsurance and motor excess of loss business classes. This segment generated gross premiums written of \$278.5 million for the year ended December 31, 2005 and \$206.4 million for the first six months of 2006.
- *Catlin Bermuda* comprises direct insurance and reinsurance underwritten by Catlin Bermuda, including property catastrophe reinsurance and casualty treaty reinsurance. This segment generated gross premiums written of \$566.8 million (before intra-group reinsurance eliminations) for the year ended December 31, 2005 and \$393.1 million for the first six months of 2006. After intra-group reinsurance eliminations, Catlin Bermuda wrote gross premiums of \$177.2 million for the year ended December 31, 2005 and \$126.7 million for the first six months of 2006.
- *Catlin UK* comprises direct insurance and reinsurance underwritten by Catlin UK. This includes property/casualty business written for smaller and medium size commercial clients as well as other lines of business that are also underwritten by the Catlin Syndicate. This segment generated gross premiums written of \$232.1 million for the year ended December 31, 2005 and \$116.6 million for the first six months of 2006.

## *Classes of Business*

The Catlin Group underwrites more than 30 classes of business. Some classes of business are underwritten by more than one of the Catlin Group's underwriting platforms. The business underwritten by the Catlin Group is broadly divided into three categories: Property Direct, Casualty Direct and Reinsurance.

### *Property Direct Insurance*

Property Direct Insurance comprised \$649.2 million in gross premiums written in 2005. Property Direct Insurance includes the following classes of business:

- *Aviation* — coverage against losses arising from use, manufacture or operation of aircraft;
- *Cargo* — coverage of goods transported by land, sea or air;
- *Construction and engineering* — coverage of construction and engineering projects (excluding construction of energy-related installations);
- *Contingency* — coverage of financial loss arising from uncertain events (e.g., revenue lost due to cancellation of an event because of an external factor);
- *Crisis Management* — coverage of financial losses and related expenses arising from the recall of a product for specific reasons, including government order or malicious tampering. This class of business also includes coverage of financial costs associated with the kidnapping or abduction of certain employees;
- *Energy* — coverage of physical damage exposures related to oil and gas exploration, extraction and refining operations, including construction;
- *Equine and livestock* — coverage of horses, bloodstock, livestock and other animals;
- *Marine hull* — coverage of damage to or the total loss of the hull of a ship or yacht;
- *Non-marine binding authorities* — coverage written by third-party agents with limited delegated binding authority. Classes written under non-marine binding authorities primarily include property, personal lines and auto physical damage insurance;
- *Political risk and terrorism* — coverage for loss arising from expropriation of property by a foreign government and for property damage related to terrorism;
- *Property facultative* — coverage for damage to non-marine property risks;
- *Satellite* — coverage for partial or total loss of a satellite or spacecraft during launch or subsequent deployment;
- *Specie* — coverage of valuable items, including fine art, jewelry, precious metals, cash in transit, travelers' checks, credit cards, postage stamps, share certificates, etc;
- *Trade credit* — coverage of trade payments and receivables;
- *UK commercial property* — coverage of UK property risks; and
- *War risk: marine and aviation* — coverage of damage or loss of vessels or aircraft due to warfare or terrorism.

### *Casualty Direct Insurance*

Casualty Direct Insurance comprised \$304.3 million in gross premiums written in 2005. Casualty Direct Insurance includes the following classes of business:

- *Financial institutions* — coverage written for banks, insurers and other financial institutions primarily consisting of bankers' blanket bond, crime and professional indemnity risks;

- *General liability* — coverage of liability arising from bodily injury and property damage to a third party caused by the insured;
- *Marine and energy liability* — coverage of liability arising from bodily injury and property damage to a third party arising from marine or energy risks;
- *Personal accident* — coverage of personal accidents (such as travel, disability, professional athletes);
- *Professional and healthcare liability insurance* — coverage of a person or organization for injury or loss to third parties arising from negligence or malfeasance in rendering professional services; the coverage included in this segment is primarily medical malpractice and other healthcare risks;
- *UK commercial crime* — coverage of UK businesses for direct financial loss arising from dishonest or fraudulent acts on the part of employees and losses suffered by the assured arising from third party computer fraud;
- *UK directors' and officers' liability* — legal liability coverage of directors and officers of UK companies or institutions for liability arising from wrongful acts;
- *UK general liability* — coverage for liability arising from bodily injury and property damage, written for UK small to medium size clients; and
- *UK professional indemnity insurance* — coverage that indemnifies for injury or loss to third parties arising from negligence or malfeasance in rendering professional services; this coverage is written for UK solicitors, accountants, engineers, architects, insurance brokers and other professionals.

#### *Reinsurance*

Reinsurance comprised \$433.4 million in gross premiums written in 2005. Reinsurance includes the following classes of business:

- *Casualty reinsurance* — treaty reinsurance of casualty risks, primarily professional liability and medical malpractice insurance;
- *Marine and aviation reinsurance* — excess of loss reinsurance of marine and aviation risks;
- *Motor excess of loss* — excess of loss reinsurance for motor insurers;
- *Property reinsurance* — excess of loss coverage for events causing severe loss, injury or damage, primarily natural disasters, along with risk excess business and proportional treaty reinsurance of property-related risks; and
- *Structured risk* — tailored reinsurance protection against significant adverse experience within retentions.

**Distribution and Marketing**

Virtually all of the Catlin Group’s business is produced by either retail or wholesale insurance brokers. A breakdown of the Catlin Group’s 2005 and 2004 gross premiums written on a percentage basis by its top ten brokers is set out below:

	<u>2005</u>	<u>2004</u>
	%	%
Marsh .....	15.9	16.9
Aon .....	13.3	11.9
Willis .....	9.8	9.5
JLT .....	6.9	7.4
Benfield Group .....	6.7	6.0
Miller .....	2.6	2.4
BMS Group .....	2.4	2.5
Heath Lambert Group .....	2.2	2.6
HSBC .....	2.0	2.1
Denis M Clayton .....	2.0	2.2

No individual broking house accounted for more than 17.0% of the Catlin Group’s gross premiums written in 2005, or 2004 and the top five broking houses accounted for approximately 50% of the Catlin Group’s gross premiums written in each of those years. Overall, the Catlin Group’s business is sourced through more than 100 brokers worldwide and the Catlin Group makes wide use of smaller specialty and regional brokers. The Catlin Group believes that the diversity and strength of its underlying broker relationships create a robust distribution network for the Catlin Group.

Distribution for the Catlin Group’s business can also be sub-divided between brokers, third party coverholders and Catlin’s international offices.

***Brokers***

This category refers to business in which a broker acts as a retail or wholesale intermediary between the Catlin Group and the purchaser of its insurance and reinsurance products. Except in specific cases where the Catlin Group delegates authority to brokers, brokers do not have authority to bind the Catlin Group with respect to insurance and reinsurance agreements, nor does the Catlin Group commit in advance to accept any portion of the business that brokers submit to it. All new and renewal business is subject to acceptance by the Catlin Group. More than half of the Catlin Group’s gross premiums written in 2005 were generated through this source, including brokers accredited by Lloyd’s, or Lloyd’s brokers, in the case of the Catlin Syndicate. Many of these trading relationships have existed since the Catlin Group commenced trading in 1985.

***Third party coverholders***

A binding authority is a contractual arrangement pursuant to which the Catlin Group delegates specific underwriting authority to a third party “coverholder”, typically a wholesale insurance agent dealing in a variety of classes of local business, but, in some cases, niche brokers. While a binding authority is typically, but not exclusively, introduced to the Catlin Group by a broker, it differs from brokered business by virtue of the delegation of underwriting authority from the underwriter to the coverholder and the nature of the business it covers, which tends to comprise higher volume, lower value transactions that would not normally be individually placed in the international insurance markets.

Binding authority arrangements, or binders, and relationships are an important part of the Catlin Group’s business, particularly since they provide access to markets that would not otherwise be readily available to the Catlin Group and facilitate business that would not be economic for the Catlin Group to transact on an individual contract basis. The Catlin Group has over 600 binding authority agreements in place annually, writing a wide range of primarily property business and providing a significant stream of premium income to the Catlin Group.

The Catlin Syndicate is a leader in the Lloyd's binding authority business, particularly in US-based surplus lines property binding authorities. The Catlin Group also focuses on establishing economically meaningful and long-term relationships with its coverholders. This has given the Catlin Group the ability to focus on and control to a greater degree the business through the cycles.

The Catlin Group's current binding authorities are primarily with agents with whom the Catlin Group has long-term relationships and who are specialists in individual classes of business. Some of these relationships have been in existence for more than a decade.

The Catlin Group places a strong emphasis on the selection, management and monitoring of its binding authorities, which requires specific skills in sub-contracting, and has established a separate team to oversee its binding authority business. The underwriting of all binding authorities is subject to the Catlin Group's underwriting processes and procedures, including limits on the size of risks underwritten and peer review of new binding authorities by the Catlin Group's coverholder class underwriter and at least one other class underwriter in addition to a compliance review and approval by the Group Binding Authority Management team. Large, material binding authorities are typically audited by an external audit provider at least annually. Smaller binding authorities are typically audited at least once every two years. Monthly or quarterly bordereau checks (detailed statements of binding authority accounts) are performed by each class underwriter.

In addition to the underwriting and other controls applied to binding authorities, the Catlin Group strives to ensure that the agreements with coverholders are structured in such a way as to align the economic interests of the parties. This means that the coverholder will receive commission by way of contribution towards its overheads but will rely on a profit commission based on the actual underwriting result for a significant part of its remuneration. Further, the profit commissions are usually structured so that any deficits in individual years can be clawed back.

#### ***International network of offices***

Over the past seven years, the Catlin Group has established offices in the United States, the UK, Canada, Germany, Belgium, Guernsey, Singapore, Malaysia, Hong Kong and Australia. For legal and regulatory reasons, many of these offices operate under binding authority arrangements with one or more Catlin underwriting platforms. These differ from third-party binding authorities in that the offices are owned by the Catlin Group, and therefore the underlying relationships remain within the Catlin Group rather than with external companies.

These local offices were established as part of the Catlin Group's strategy of broadening its distribution network, accessing local, niche markets and developing closer relationships between Catlin Group underwriters and Catlin Group clients (both buyers and retail brokers). The particular locations of the offices reflect both strategic growth plans and opportunistic underwriting propositions. Certain of these offices specialize in particular classes of business — for example, Catlin Underwriting Agency US Inc.'s Houston office specializes in underwriting medical malpractice insurance, while the Guernsey office specializes in underwriting general aviation risks — and other offices (including the Singapore, Sydney and Toronto offices) underwrite several classes of business. Offices established in the United Kingdom outside of London — Glasgow, Leeds, Derby, Birmingham, Watford and Tonbridge — underwrite property and casualty business that is produced by regional UK brokers.

The Catlin Group believes that its network of offices creates a competitive advantage by establishing access to markets not otherwise available and by facilitating the development of closer relationships with insureds and brokers in local markets.

#### **Information Technology**

The Catlin Group recognizes that high quality information technology is vital to its growth and profitability and has established a comprehensive information technology strategy which encompasses all elements of the Catlin Group's business.

To facilitate enhanced risk selection and to strengthen the underwriting control framework, the Catlin Group has developed a proprietary underwriting system and data warehouse known as "the FRAME". The FRAME is accessible by all relevant Catlin Group employees in offices worldwide through standard internet browser

software. The FRAME records details of each underwriting transaction from initial quotations through to any applicable claims activity. Detailed information about each risk to be underwritten by the Catlin Group is entered into the system, together with relevant documentary support for the underwriting decision. Data entered into the FRAME is subsequently loaded and stored into the Catlin Group's data warehouse, which is the vehicle used to create underwriting management reports. The data warehouse also provides information feeds directly to the Catlin Group's general ledger systems. The FRAME provides the Catlin Group underwriters and management worldwide with instant access to information regarding the business underwritten by the Catlin Group. It creates a clear audit trail on underwriting decisions and is an integral component of the Catlin Group's extensive system of underwriting controls.

The Catlin Group continues to develop and enhance the FRAME to meet its changing business needs. It is intended to be sufficiently scaleable to support anticipated future business expansion. In addition, other systems may be used by certain offices in coordination with the FRAME or relevant financial reporting systems.

IT security and business continuity is of paramount importance to the Catlin Group. A number of technologies and processes are employed to defend the Catlin Group's systems and networks. A disaster recovery plan is in place, including secure offsite data storage for data backups and secondary offsite data processing facilities, with the goal of having the Frame operational within 24 hours of the occurrence of a disaster event.

The Catlin Group has established a document management system for non-risk related documentation. The bulk of the Catlin Group's other IT-related needs are met through the use of commercially available general ledger, word processing, spreadsheet and database programs.

## **Underwriting**

### ***Underwriting philosophy and culture***

The Catlin Group's underwriting philosophy and culture is designed to align the interests of its underwriters with those of the Catlin Group and its shareholders. The main facets of this philosophy and culture are:

- *Underwriting for gross profitability across cycles*

Class underwriters report on a gross basis and the Catlin Group expects each class to produce a gross profit in the aggregate through its cycle. The Catlin Group strives to expand underwriting when market opportunities support targeted returns and to restrain income in less profitable market conditions. The Catlin Group uses its tailored management information (including up-to-date analysis of rate movements and rate adequacy compared with target levels) to anticipate and react to changes in premium rates and manage underwriting profitability through the underlying insurance cycles of its various classes of business.

- *Catlin Group mentality*

The Catlin Group's underwriting activities are managed as a single profit center across its multiple platforms. Individual risks are allocated to platforms where capital can be efficiently deployed (taking into account client preference and platform strategies approved by the Catlin Group Board). Underwriters' incentive compensation is linked to the Catlin Group's overall profitability directly and by way of broadly distributed share and option ownership — nearly all class underwriters are share or option holders in Catlin Group Limited. This Catlin Group mentality encourages underwriters to communicate, share knowledge and direct risks to the most appropriate area within the Catlin Group; it also assists in removing potential conflicts arising from internal profit transfer.

- *Responsibility and accountability*

Underwriters are given significant, formally defined individual responsibility in terms of their underwriting authority. However, they are also accountable to both management and their peers for the quality and ultimate profitability of the risks they accept. The Catlin Group applies a stringent system of underwriting and risk management controls, including formal documentation of underwriting practices, regular monitoring, peer reviews and performance analyses.

- *Controlled expansion*

The Catlin Group's expansion into new markets and risk classes is undertaken in a controlled manner based on detailed research. This ordinarily requires recruiting or developing dedicated teams of underwriters with the necessary specialist skills and experience. The Catlin Group's controlled approach is targeted at reducing the volatility inherent in new product lines, and is supported by the recruitment of appropriate resources to provide future profitable growth as market conditions change through insurance cycles.

- *Diversification and reduction of correlated risk*

The Catlin Group believes that diversification has the effect of reducing exposure to correlated risk, and so has deliberately spread its insured exposure by type, class, distribution channel and geographic area.

### ***Underwriting governance***

The Catlin Group has established an internal underwriting board, which is led by the Catlin Group's Chief Underwriting Officer and includes senior underwriting managers, referred to as underwriting directors, from across the Catlin Group. The underwriting board has broad responsibility to establish the Catlin Group's underwriting best practices and procedures and to monitor the execution of the underwriting plan.

Each of the Catlin Group's underwriting platforms has an underwriting committee that is responsible for the implementation and oversight of the individual platform's underwriting strategy. These committees include underwriting directors, the platform CEO and representatives from claims, finance and actuarial. The underwriting committees meet regularly and monitor and control the activities of the platform's underwriting to ensure that the underwriting strategy is effectively executed in accordance with the terms of the underwriting policy and business plan approved by the Catlin Group and platform boards.

Within each platform, certain classes of business are grouped together to form business groups that are each overseen by one of the platform's underwriting directors, referred to as business group leaders. Each business group meets at least three times a week. At these meetings, each class underwriter presents his or her analysis of the accounts that are under current review, discusses pricing levels and market conditions, and provides an update on any major loss activity. For those classes of business that have potential exposure to large industry losses or natural disasters, the business group monitors current accumulated exposure levels against the approved platform limits. A primary purpose of the business group meetings is to ensure a high quality of underwriting analysis and decision-making, as well as compliance with the Catlin Group underwriting policies. Formal peer review is conducted at these meetings as described more fully below.

### ***Controls and procedures***

#### ***Business planning and monitoring***

The Catlin Group underwriting board develops an annual underwriting plan for the consideration of platform and Catlin Group management. Once the annual underwriting plan is approved by the platform and Catlin Group boards, the underwriting board monitors its execution throughout the year.

During each quarter, The Catlin Group underwriting board meets with the class underwriters and platform underwriting directors in each business group for an in-depth review of the performance and progress of business initiatives for each class of business. The review compares planned and actual results, and reviews rate change and rate adequacy levels, major account activity including large losses, updated estimates of full year results, market conditions including competitive pricing, and any strategic or operational issues that might have emerged during the quarter. At the end of the quarter, the Catlin Group underwriting board accumulates the revised forecasts and updates management with a new estimate of the annual underwriting results.

In addition, the platform underwriting committees monitor performance measured against plan for each class of business on a monthly basis.

### *Rigorous technical underwriting analysis*

The Catlin Group has invested in the development of custom-built analytical tools to assist in the understanding of risks written and to facilitate more accurate pricing of those risks. These include internally developed rating models. The Catlin Group also utilizes the risk model RMS™ in respect of some of its natural catastrophe exposures, alongside its own internal catastrophe models. Each underwriter is required to use the appropriate tools as part of the underwriting analysis.

The Catlin Group believes that actuarial support for underwriting is best applied in conjunction with underwriters' risk selection and assessment skills, business judgment and trading relationships, rather than in isolation from, or substitution for, those skills. The Catlin Group therefore makes extensive use of actuarial tools and methodologies to complement the underwriting analysis. Actuarial input is achieved in the following ways:

- Actuarial resources are assigned to each business group and to each platform. Members of the Catlin Group's actuarial staff — which includes ten qualified actuaries — regularly attend underwriting meetings to develop a day-to-day understanding of the trading environment.
- Actuarial staff, in conjunction with class underwriters, have developed rating models for most of the classes of business written by the Catlin Group. These rating models are used extensively in pricing business and in measuring rate adequacy and rate movements.
- On individual large or complex risks, and in particular in statistically oriented classes such as casualty reinsurance, actuarial staff work with the underwriters in pricing the individual risks.
- As part of the peer review process on risks that have already been underwritten, actuarial staff will audit the "rate increase/decrease" and "rate adequacy" assigned by the underwriters for a sample of risks.

The Catlin Group has also invested in wording specialists, including qualified lawyers, who assist underwriters in assessing and developing policy wordings in order to ensure that contracts reflect underwriters' intent. This is of particular importance in classes such as energy, where the use of tailored rather than standard wording is widespread.

### *Peer review*

Each underwriter must adhere to established authority limits, underwriting guidelines, systems and controls. These rules govern risk appetite, line size, type of risk, referral parameters and data entry requirements, among other things. Peer review is a key control to assure compliance with these standards and to provide a second, experienced view of the judgment factors in the underwriting analysis. A peer review of each account is performed on both a pre- and post-underwriting basis. As part of the peer review, the underwriter is required to explain and justify underwriting decisions to management and to peers.

*Pre-underwriting.* The extent of the pre-underwriting peer review depends largely on the size and complexity of the risk. Routine risks are discussed prior to acceptance at the discretion of the relevant underwriter and business group leader, while the business group's meetings offer underwriters the opportunity to discuss individual risks. More significant risks, and a selection of routine risks, will be subject to discussion and peer review at this stage. Risks beyond the normal parameters of the Catlin Group's underwriting guidelines must be approved by an underwriting director or the Catlin Group's Chief Underwriting Officer.

*Post-underwriting.* Every risk underwritten is subject to peer review which requires, at a minimum, written approval of one other class underwriter. Depending on certain risk characteristics (for example, line size), the required number of sign-offs is increased to ensure that risks beyond the normal parameters of the Catlin Group's underwriting guidelines are reviewed at the appropriate management or underwriting level.

### *Binding authorities*

As described above, binding authorities comprise an important element of the Catlin Group's distribution strategy. The Catlin Group recognizes that granting underwriting authority to third party "coverholders" or "managing general agents" presents certain risks and has therefore established a dedicated team and detailed

procedures for vetting, controlling and monitoring delegated underwriting authorities. In addition to addressing pure business concerns (particularly the alignment of the Catlin Group's interests and those of the coverholders), the Catlin Group intends to satisfy or exceed any regulatory requirements relating to binding authorities.

Considerable effort, including detailed review of previous underwriting track record, site visits, meetings and/or third-party audits, is expended prior to granting a binding authority.

Each coverholder is subject to limitations on the business it underwrites in respect of, among other things, premium, class of business and maximum risk limits. The coverholder must also conform to specified reporting standards. The terms of the binding authority are subject to peer review as set forth above, and compliance with those terms is monitored by the underwriter and a dedicated binder management team. Binding authorities are subject to a rolling audit program, some conducted by Catlin Group staff and some involving third-party coverholder auditors, which supplements visits by the underwriter and/or claims staff. The frequency and depth of these reviews and visits depend on the nature and scale of the delegated authority. In addition, regular monthly or quarterly bordereau checks are performed by each class underwriter responsible for the binding authority, with profitability being closely monitored. Profitability is a key factor in determining whether a binding authority is renewed, together with the quality of management controls within the coverholder.

The Catlin Group has reduced the number of binding authorities outstanding over the past several years, while simultaneously increasing the average income per binding authority.

#### *IT system and operational support*

All of the Catlin Group's management reviews, governance meetings and processes are underpinned by a sophisticated underwriting account management system and underwriting information database. A Catlin Group underwriter enters detailed information about each account into the Catlin Group's underwriting system, the FRAME. All levels of underwriting management have continuous access to all relevant underwriting information. Submission levels, broker activity, rate changes and rate adequacies, limits and aggregate accumulations by catastrophe exposure regions, underwriting analysis including the use of the various technical models, and loss activity are some of the key elements that can be reviewed by account or in summary. All key underwriting documents are scanned into the FRAME and are stored with the individual account file. The FRAME includes the entire underwriting file to facilitate the post-underwriting peer review and to create an audit trail for the peer review process. Account servicing information is captured including the timeliness of finalizing policy wordings ("contract certainty").

The procedures and systems necessary to enable the controls and processes described above are extensive and essential to the control framework. The Catlin Group has put in place an operations board to support the effective operation of the underwriting and other Catlin Group systems, best practices and standards. This board is led by the Catlin Group's Chief Operating Officer and includes or meets monthly with representatives of the Catlin Group's underwriting, claims, actuarial, finance, reinsurance recoveries, overseas office management, IT, compliance and risk management teams. The board serves as a forum to review the performance of the operational systems and procedures and to identify any further development needs. It ensures the assignment of responsibility and allocation of resources for development projects and monitors the progress of the agreed initiatives.

The operations board also monitors many of the key control measures of the underwriting process through reports developed from the FRAME and through review of individual account files. Data quality reviews, the peer review process and exception reports are areas of particular focus for the operations board, the platform compliance staff and Catlin Group management.

#### **Claims Management**

The cost of claims is the largest component of Catlin Group expenses. The Catlin Group aims to adjust claims fairly and economically in accordance with policy terms and conditions, and to pay claims promptly upon their resolution. It is also important that underwriters remain aware of the scale and nature of claims activity in their accounts. The claims staff therefore interact closely and regularly with the underwriters, both on an ad hoc

basis and by regular attendance at underwriting meetings. The claims staff also liaises regularly with actuarial staff with respect to the quantification of loss reserves and the treatment of disputed claims.

The Catlin Group employs a team of claims adjusters who are responsible for applying policy terms and conditions to the circumstances of a loss and to determine the extent of policy coverage and Catlin Group liability. The claims adjusters specialize in particular classes of business to ensure that appropriate familiarity and expertise is brought to bear on the adjustment process. In addition, the Catlin Group employs lawyers qualified in the United States, the United Kingdom and/or Bermuda who are dedicated entirely or in part to the claims team. This in-house legal expertise facilitates a technically proficient claims adjustment process and reduces the need for, and expense of, outside counsel.

The Catlin Group outsources virtually all of its loss adjusting activities which entail physical appraisal and valuation of losses. Given the geographical spread of Catlin Group business, the diverse technical non- insurance skills required to assess losses and the number and quality of loss adjusting specialists available worldwide, it would be neither economic nor practical to handle this function in-house.

Upon the occurrence of a loss, a loss adjuster will typically be appointed by the lead underwriter, the insured or its broker, depending on policy terms. This loss adjuster will report his/her analysis of the loss to the relevant Catlin Group claims adjuster, who will consider the report and analyze the extent of coverage afforded. Once the insurance liability is reasonably quantifiable, a loss reserve will be established. The loss will be paid in stages or in full as it is finally quantified.

Individual claims adjusters within the Catlin Group work within prescribed limits of authority, with larger and more complex claims being referred to more senior claims staff. Areas of potential dispute are referred to in-house legal staff, who advise on coverage issues and may, depending on the value and complexity of the issues presented, refer to outside legal counsel as well. The Catlin Group strives to minimize coverage disputes with its insureds and reinsureds and endeavors, where possible, to achieve commercial resolutions to disputed matters. Denial of claims and litigation are pursued where appropriate.

The lead underwriter on the policy will ordinarily be responsible for claims adjustment for the other underwriters. In circumstances where the Catlin Group is not the lead underwriter, the Catlin Group will be advised of claim quantum and significant claims adjustment issues. The Catlin Group monitors claims, with particular attention to large or complex claims in respect of which it is not the lead underwriter and, subject to policy terms, it may choose to become more actively involved in the adjustment process.

## **Risk Management**

The Catlin Group operates in a dynamic business environment, and it continues to grow and expand its operations consistent with its strategic objectives. In pursuing its goals, the Catlin Group faces a wide range of business and operating risks. A thorough understanding of the risks potentially affecting the Catlin Group, together with a disciplined risk mitigation program, is critical to the Catlin Group's prospects from commercial, regulatory and rating agency perspectives, and can provide competitive advantages. The Catlin Group uses a formal risk management program to analyze its risk profile and adopt appropriate risk mitigation strategies. The risk identification and assessments and control reviews are updated and refreshed regularly to ensure that risk management adapts to changing conditions and that risk mitigation is continuously strengthened.

The Catlin Group's risk management program is supervised by a Chief Risk Officer who provides guidance and support for risk management practices across the Catlin Group and within the various departments. The Chief Risk Officer reports to the Catlin Group Chief Executive and to the Catlin Group Board and its Audit Committee. Responsibility for risk management is spread throughout the organization and is embedded in the operational responsibilities of each manager. The Chief Risk Officer works with the Catlin Group's Chief Actuary on risk-based capital modeling, with the Catlin Group's Chief Compliance Officer and the Head of Internal Audit on risk-based audit planning and compliance reviews, and on other specific initiatives to evaluate and address risk within targeted areas.

The chief executive of each underwriting platform is responsible for developing and executing a strategy and business plan subject to the approval of the Catlin Group's Chief Executive and the Catlin Group Board and

underwriting platform boards. In managing a platform's operations, the chief executive of that platform is responsible for identifying and managing the risks to the platform's objectives. The platform CEO is charged with establishing and ensuring compliance with appropriate policy, procedures and other controls that reflect Catlin Group policy and procedures and with all applicable external regulatory requirements.

### ***Risk management framework***

Under the direction of the Catlin Group Chief Risk Officer, the Catlin Group conducts a regular formal risk assessment process within each of its operating platforms. The risk staff works with the management team of each platform to identify the key risks and the related controls within five categories of risk: insurance risk, credit risk, liquidity risk, market investment risk and operating risk. The level of risk and the effectiveness of the controls is assessed by management and reviewed by the Chief Risk Officer and the risk team. Where control improvements are in development, the risk team monitors the progress of the projects. The risk and control assessments are updated quarterly and reviewed by platform management and the Catlin Group risk staff.

The risk team works together with the actuarial staff to review and assess the residual risk remaining following the application of the mitigating controls. The team uses various models including sophisticated stochastic modeling to quantify the Catlin Group's risk and the related capital required to bear the unmitigated risk within the risk appetite of the Board. They further evaluate capital requirements through stress and scenario tests and develop capital levels for each operating platform as its own entity and for the Catlin Group as a whole, recognizing the diversification and correlations between the platforms. The results of this modeling are included in the reports to the Catlin Group Board as part of the annual planning discussions.

The internal audit and the compliance teams review the risk assessment and the critical controls used by the risk team in developing the annual plan for internal audits and compliance reviews.

Annually, each platform prepares a formal document that details the platform's risk governance, policies and controls, risk assessment and other aspects of a comprehensive risk management program. The document includes the current results of the ongoing risk assessment activity and the results of the capital modeling. The document is reviewed and approved by management and the relevant board.

### ***Management of insurance risk***

The Catlin Group Underwriting Board and the underwriting committee of each platform are responsible for overseeing the Catlin Group's underwriting operations. For more information regarding the underwriting philosophy, governance, procedures and control framework in place to address the underwriting aspect of insurance risk, see "Underwriting" above.

The Catlin Group Claims Director directs claim operations across the Catlin Group. The systems and procedures for claims are supported and monitored by the Catlin Group's operations board. The Head of Claims is responsible for identifying the risks to effective claim processes and for ensuring a claim organization is capable of managing those risks. Internal and, if appropriate, third party reviews of claim operations are conducted to ensure that the control framework is effective.

The Catlin Group Chief Actuary oversees the Catlin Group's reserving processes. In addition, the Catlin Group receives independent external analyses of its reserve requirements annually.

### ***Management of investment risk***

All Catlin Group and subsidiary assets are managed at the Catlin Group level by the Catlin Group Chief Investment Officer, whose duties are defined by written policies and instructions established by the Investment Committee of the Board. The broad investment strategy adopted by the Board is focused on capital preservation and, in that context, on maximizing return while maintaining a low risk portfolio. The bond portfolio, which comprised 74% of the Catlin Group's investments as of December 31, 2005 and 68% as of June 30, 2006, is held in bonds with a rating of "A" or above. Of this portfolio, 94% was in bonds with a rating of "AA" or better as of December 31, 2005 and 95% in bonds with a rating of "AA" or better as of June 30, 2006. The balance of the Catlin Group's investments are held in cash and short-term investments. Investment management has been

outsourced to professional fund managers selected by the Investment Committee and approved by the Board. The performance of these managers is monitored by the Catlin Group Chief Investment Officer and tracked by both management and the Investment Committee.

In summary, investment risk is managed by deliberately holding a low volatility portfolio and through the diligent oversight of the outside fund managers.

### ***Management of credit risk***

The major credit risk to which the Catlin Group is exposed is credit risk from reinsurance recoverables. The Catlin Group Reinsurance Security Committee, chaired by the Catlin Group Chief Financial Officer, manages this risk at the Catlin Group level. This committee establishes security standards applicable to all reinsurance purchases and monitors the financial status of all reinsurance debtors. A centralized team executes the Catlin Group reinsurance collection process and the committee monitors the financial status of all reinsurance debtors.

### ***Management of liquidity risk***

The Catlin Group Chief Investment Officer monitors cash flow and manages liquid assets and debt facilities to ensure that cash is available to meet obligations and works with the finance officers of the underwriting platforms to ensure proper controls over cash management and to identify, understand and meet operational liquidity needs.

### ***Management of operational risk***

The Chief Executive Officer of each underwriting platform and each “head of function” is responsible for managing the operational risk in his or her area. Each is required to establish and adhere to appropriate operational policies and procedures. Internal audit and other management teams oversee compliance with these policies and procedures.

The Catlin Group Head of Internal Audit directs an internal audit process across all operations and subsidiaries of the Catlin Group. The internal audit process is designed to provide management and the Board, through its Audit Committee, with reasonable assurance that the Catlin Group’s controls and procedures are able to contain risks within acceptable limits.

### ***Summary of high level controls***

The Catlin Group Limited Board has adopted a number of controls to ensure the satisfactory operations of the Catlin Group. The Board receives detailed financial data on a quarterly basis. These financial reports are reviewed by the Audit Committee. Accounting policy is set by the Board through the Audit Committee.

The Board receives a quarterly report from the Catlin Group Chief Executive, Catlin Group Chief Underwriting Officer, Chief Operating Officer, Chief Financial Officer, Catlin Group Chief Risk Officer and the platform chief executives on current operations and on any areas of high risk.

The Board meets annually with Catlin Group management to conduct an in-depth review of the Catlin Group’s annual business plan and to assess the risks embedded in the plan. New initiatives and other major projects are presented and discussed.

Each year, the internal audit team assesses the effectiveness of the Catlin Group’s control framework and reports to the Board.

Through its Investment Committee, the Board reviews the investment performance and asset management practices of the Catlin Group. Through its Compensation Committee, the Board reviews human resources policy and the remuneration of senior staff. Through its Audit Committee, the Board monitors the activities and reports of external actuaries, the external auditors and the internal auditors and monitors the key risks associated with the financial reporting.

The Audit Committee or the full Board receives reports from the outside auditors, internal auditors and the external actuaries at least once a year. The Audit Committee also regularly meets those parties in private sessions, at which management and executive directors are not present.

## **Reinsurance**

The Catlin Group purchases reinsurance to limit and spread its exposure, protect against catastrophic losses and in some instances to increase its insurance underwriting capacity. These agreements recover a portion of losses and loss expenses from reinsurers.

### ***Reinsurance strategy***

When purchasing reinsurance, the Catlin Group aggregates many of its risks across the Catlin Group. The Catlin Group believes that by leveraging its purchasing power, it achieves favorable terms and pricing for its reinsurance protections. The Catlin Group's principal reinsurance arrangements provide coverage for the aggregated losses incurred by its individual underwriting platforms, as well as those incurred by Syndicate 1003 (the third-party capital Lloyd's syndicate that ceased operations after the 2003 year of account). Reinsurance protecting a specific portfolio or underwriting platform may also be purchased by the Catlin Group. The Catlin Group's reinsurance purchases are ordinarily centralized, with the exception of facultative reinsurance. Facultative reinsurance is purchased against an individual risk (for example, to cover specific exposures or to reduce the impact of gross line sizes).

The Catlin Group's Chief Underwriting Officer is responsible for the purchase of reinsurance. In determining which reinsurance protections to purchase, the Catlin Group analyzes, among other things, net retained risk appetite, capital position, rate adequacy of inwards business, price and quality of reinsurance available, individual and correlated or aggregated risk exposure, exposure to potential multiple events, regulatory requirements or restrictions and a cost versus value analysis of the proposed program.

The Catlin Group's reinsurance strategy is predominantly based on the purchase of non-proportional protections, with elements of proportional and facultative reinsurance. Most of the reinsurance program covers losses on a "losses occurring during" basis, although some coverage is on a "risks attaching" basis. In addition, intra-group reinsurance is placed with Catlin Bermuda. For more information on these arrangements, please refer to "Related Party Transactions".

The Catlin Group uses reinsurance to control and limit its exposure to risks, including catastrophic risks. For example, as at December 31, 2005, the Catlin Group estimated that its gross losses arising from the three major hurricanes of 2005 (Katrina, Rita and Wilma) amounted to \$615.1 million. However, the Catlin Group's net loss (after reinsurance recoverables and including the cost of reinstating reinsurance coverage exhausted by the loss, the benefit of reinstatement premium protection coverage and additional inwards reinstatement premiums) was estimated to be \$350.2 million. The difference between gross and net loss reflects the effectiveness of the Catlin Group's reinsurance strategy in addressing, in this case, a series of catastrophic events.

### ***Reinsurance processes and controls***

The Catlin Group's Reinsurance Security Committee is composed of the Catlin Group Chief Financial Officer, other Catlin Group executives, and underwriting and claims representatives, and is advised by an independent reinsurance analyst. The Catlin Group Reinsurance Security Committee ordinarily meets on a monthly basis and is responsible for:

- establishing a core list of approved reinsurers, based on financial strength and market information, all of which must maintain a minimum financial strength rating of "A" from Standard & Poor's (S&P) or "A-" from A.M. Best;
- monitoring the minimum financial strength requirements for the Catlin Group's reinsurers;
- monitoring exposure to individual reinsurers; and
- monitoring reinsurance recoverables and reinsurance bad debt.

Since the Catlin Group remains liable to its policyholders regardless of whether or not reinsurers meet their obligations (as is the case with most reinsurance arrangements), evaluating the financial condition of the Catlin Group's reinsurers and monitoring concentrations of credit risk on an ongoing basis are key responsibilities of the Catlin Group Reinsurance Security Committee. More than 95% of the Catlin Group's reinsurance recoverables outstanding as at December 31, 2005 are owed by reinsurers with a financial strength rating of at least A- (A.M. Best) or equivalent. The Catlin Group maintains provisions to cover balances due, or anticipated to be due, from reinsurers that are expected to be unable to pay amounts due, and to account for contractual disputes. For additional information, please refer to "Risk Factors".

At December 31, 2005, there were four reinsurers which accounted for more than 5% of the Catlin Group's total reinsurance recoverable:

	<u>% of Reinsurance Recoverable</u>	<u>A.M. Best Rating</u>
National Indemnity Company .....	14	A++
ERC Frankona Ruckversicherungs A.G. ....	11	A
Hannover Ruck A.G. ....	8	A
Munich Re.....	8	A+

Any purchase of reinsurance from reinsurers not on the core list requires prior approval of the Catlin Group Reinsurance Security Committee. The Reinsurance Security Committee also provides information on key reinsurance performance and security parameters to the Board.

## **Loss and Loss Expense Reserves**

### *Creation of loss and loss expense reserves*

Losses arising from claims, and expenses associated with handling those claims (both allocated and unallocated, known as loss adjustment expenses, or LAE), comprise the bulk of Catlin Group expenses in any given year. To comply with insurance laws and regulations and with US GAAP, the Catlin Group establishes reserves for such losses and expenses. The reserves represent estimates of amounts that the Catlin Group may have to pay for claims and claims handling expenses in the future, and are carried on the balance sheet as liabilities. The reserves encompass not only losses that have been reported to the Catlin Group but also losses that have occurred but have not yet been reported.

The Catlin Group aims to establish prudent loss and LAE reserves through an iterative process considering, among other things, underwriters' and management's views of rate adequacy and expected loss ratios, known case reserves, historical experience, actuarial and statistical analysis and underlying loss trends. The Catlin Group does not discount its reserves for the time value of money. The Catlin Group sets reserves conservatively within the actuarial range of estimates, reflecting the inherent uncertainties in estimating insurance and reinsurance liabilities.

### *Reserving methodology*

The starting point for reserving an underwriting year is the loss ratio projected for business planning purposes for each class of insurance or reinsurance written by the Catlin Group. The initial projections represent the collective views of class underwriters, actuaries and management as to expected loss experience and rate adequacy, and are in part an output of the process of rating and pricing business. They are based upon historical experience, comparative rating levels and underlying loss trends, and are modeled for most classes of business by proprietary actuarial and statistical analytical models.

As losses are notified to the Catlin Group, specific loss reserves are established. Where the Catlin Group is a lead underwriter on a given risk, the amount of the reserve is typically estimated by Catlin Group claims, underwriting and/or legal staff, often with the assistance of outside consultants, such as loss adjusters or counsel. The Catlin Group may also seek external actuarial advice on specialist areas of an account. Where the Catlin

Group is a following underwriter, the reserve is typically advised by the leading underwriter, although the Catlin Group may independently appraise the suggested reserve, particularly on large or disputed claims.

Reserves are reviewed quarterly by line of business on a collaborative basis among underwriting, claims, legal, actuarial and finance staff. Reported claims experience during the quarter is compared with previous projections and historical experience, by way of loss triangulations, and expected loss is reassessed using standard actuarial methodologies. Individual large losses are subject to ongoing monitoring and review, and any reserve movements would be calculated separately from the generalized line of business review.

The quarterly reserve analysis is subject to review and approval by the Chief Actuary and is signed off both by the finance team and management. In addition to the Catlin Group's internal actuarial reserving process, Ernst & Young provides an annual independent analysis of reserves. As at December 31, 2005, the Catlin Group was within Ernst & Young's range of reasonable best estimates and exceeded their best estimate of reserves. In performing its work, Ernst & Young relied, without performing its own audit or verification, on data supplied by the Catlin Group. Their work is subject to the same inherent uncertainties as the internal analysis. The assumptions and results of the Catlin Group's actuarial work are also reviewed by the auditor's actuarial team, as part of the annual audit of the Catlin Group's financial statements. This work is solely for the purposes of that audit.

### ***Uncertainty***

The Catlin Group's in-house actuarial team, comprising ten qualified actuaries, conducts a full review of the Catlin Group's overall reserves for claims and claims handling expenses on a quarterly basis. Any releases or required strengthening identified in the review are reflected in current income. Adjustments to reserves are based upon a combination of objective factors such as actual claims advice, plus assumptions derived from historical experience and estimates as to current and future trends. A significant element of professional judgment on the part of Catlin underwriters, actuaries and management and external professional advisers (including lawyers, actuaries and auditors) is incorporated into the reserve analysis. All of these factors introduce a significant element of uncertainty.

Reserving is a fundamentally uncertain process of projecting future costs of known and unknown events. The degree of reserving uncertainty differs from class to class. Short-tail property exposures, for example, represent one of the less complex classes to quantify; however, significant uncertainty remains due to reporting lags, difficulty in ascertaining the quantum of individual losses and the potential for coverage disputes. Long tail classes, such as general liability and professional indemnity, are significantly more difficult to reserve accurately because ultimate claims costs take many years to ascertain and are subject to unforeseeable trends in areas such as, for example, medical costs and the courts' attitude towards tort liability generally. Those uncertainties are magnified in reinsurance classes owing to, among other factors, delays in reporting and the fact that reinsurers have less intimate knowledge of the underlying claims matters that may ultimately affect the reinsurance. As a result, the loss and loss expense reserves held by the Catlin Group at any time may be inadequate, perhaps materially, to meet the Catlin Group's liabilities.

### ***Reserves for asbestos and environmental liability***

The Catlin Group does not consider that it has material exposure to claims arising from US asbestos or environmental liability arising out of occurrence-based liability policies insured prior to 1986, which primarily relate to the period before the Catlin Group was formed.

### *Loss and loss expense reserves*

The analysis of unpaid losses and loss expenses for the years ended December 31, 2005, 2004 and 2003 and for the six months ended June 30, 2006 and 2005 is as follows:

	For the Six Months Ended		For the Year Ended December 31,		
	June 30, 2006	2005	2005	2004	2003
	(in thousands)				
Gross unpaid losses and loss expenses, beginning of year . . . . .	\$1,995,485	\$1,472,819	\$1,472,819	\$ 962,535	\$695,168
Reinsurance recoverable on unpaid loss and loss expenses . . . . .	<u>(575,522)</u>	<u>(359,154)</u>	<u>(359,154)</u>	<u>(242,187)</u>	<u>(214,174)</u>
Net unpaid losses and loss expenses beginning of year . . . . .	<u>1,419,963</u>	<u>1,113,665</u>	<u>1,113,665</u>	<u>720,348</u>	<u>480,994</u>
Net incurred losses and loss expenses for claims related to:					
Current year . . . . .	320,765	308,839	959,492	698,706	391,995
Prior years . . . . .	<u>(4,201)</u>	<u>(3,566)</u>	<u>(94,207)</u>	<u>(38,269)</u>	<u>32,630</u>
Total incurred losses and loss expenses . .	<u>316,564</u>	<u>305,273</u>	<u>865,285</u>	<u>660,437</u>	<u>424,625</u>
Net paid losses and loss expenses for claims related to:					
Current year . . . . .	(24,047)	(11,719)	(115,128)	(94,432)	(49,189)
Prior year . . . . .	<u>(271,115)</u>	<u>(167,723)</u>	<u>(363,449)</u>	<u>(281,483)</u>	<u>(166,447)</u>
Total paid losses and loss expenses . . . . .	<u>(295,162)</u>	<u>(179,442)</u>	<u>(478,577)</u>	<u>(375,915)</u>	<u>(215,636)</u>
Loss portfolio transfer of remaining net liability in Syndicate 1003 . . . . .	—	—	—	66,926	—
Foreign exchange adjustment . . . . .	<u>53,421</u>	<u>(46,110)</u>	<u>(80,410)</u>	<u>41,869</u>	<u>30,365</u>
Net unpaid losses and loss expenses end of year . . . . .	<u>1,494,786</u>	<u>1,193,386</u>	<u>1,419,963</u>	<u>1,113,665</u>	<u>720,348</u>
Reinsurance recoverable on unpaid loss and loss expenses . . . . .	<u>455,797</u>	<u>289,014</u>	<u>575,522</u>	<u>359,154</u>	<u>242,187</u>
Gross unpaid losses and loss expenses, end of year . . . . .	<u>\$1,950,583</u>	<u>\$1,482,400</u>	<u>\$1,995,485</u>	<u>\$1,472,819</u>	<u>\$962,535</u>

As a result of the changes in estimates of insured events in prior years, the provision for losses and loss expenses net of reinsurance recoveries decreased by \$4.2 million in the first half of 2006, compared with a decrease of \$3.6 million in the first half of 2005. Included in this amount are incurred losses of \$26.0 million, caused by a reassessment of expected ultimate loss costs relating to the 2005 hurricanes in the United States offset by net decreases in estimated loss reserves in other classes of business of \$30.2 million. In the first half of 2006 and 2005, these decreases were due to changes in estimates of insured events in previous years resulting from reductions of expected ultimate loss costs, settlement of losses at amounts below previously estimated loss costs and reduction in uncertainty surrounding the quantification of the net cost of claim events.

### **2005 hurricanes in the United States**

The following table summarizes the gross and net losses for the Catlin Group as at December 31, 2005 in respect of the three hurricanes (Katrina, Rita and Wilma) that caused extensive damage in the Gulf of Mexico and south-eastern United States during the second half of 2005.

	<b>As at December 31, 2005</b>
	<b>(in thousands)</b>
Gross losses .....	\$ 615,097
Reinsurance recoveries .....	<u>(281,591)</u>
Net loss prior to reinsurance costs .....	333,506
Net reinstatements due on ceded business .....	48,258
Reinsurance restatements on assumed business .....	<u>(31,540)</u>
Net loss .....	<u>\$ 350,224</u>

Net incurred losses and loss expenses for claims for 2006 include \$26.0 million of net losses incurred (prior to reinstatement costs) in respect of these hurricanes.

The figures above represent management's best estimate of the likely final losses to the Catlin Group from the three hurricanes. These losses were most pronounced in the property/catastrophe insurance lines. In making this estimate, management has used the best information available, including estimates performed by Catlin's underwriters, actuarial and claims staff, and retained external actuaries, outside agencies and market studies. Hurricane Katrina is the largest insured loss in history and claims related to Katrina are still subject to particular uncertainty, both in respect of the amount of the original loss and the impact of claims on the reinsurance market. Management's best estimate is based on an assessment of individual contracts in which the Catlin Group participates. Where affected classes of business underwritten by Catlin are covered by reinsurance, management's best estimate of losses is within the limits of reinsurance protections in respect of all three hurricanes. Where affected classes of business are not covered by reinsurance, any changes to management's best estimate will be fully reflected in net losses and loss expenses in that period.

The overall management best estimate of net unpaid losses is sensitive to both individual large losses and the overall portfolio of business. In respect of the 2005 hurricanes in the United States, management has particularly considered sensitivities relating to gross losses on direct and reinsurance accounts, the underlying loss experience of cedents and reinsurance coverage and security issues.

### **Investments**

The Catlin Group's investment strategy seeks to preserve its capital and maintain liquidity for the prompt payment of claims, while maximizing the investment return of high quality, diversified invested assets. The CICL Group holds the majority of the Catlin Group's investment assets, and the Catlin Group's investment strategy applies equally to the CICL Group.

The Catlin Group seeks to match assets and liabilities by currency and duration. The Catlin Group uses expert external investment managers to manage its investments. The Catlin Group Investment Committee is comprised of five Catlin Group Directors, and its meetings are attended by the Catlin Group Chief Financial Officer, Christopher Stooke, and the Chief Investment Officer, Barry McDonald. The Investment Committee establishes investment policies and guidelines for its external fund managers, which specify criteria on credit quality, type, concentration and liquidity characteristics of the various portfolios and include limitations on the size of certain holdings as well as restrictions on purchasing certain types of securities. Performance reports are received from the investment managers on a monthly basis. The Catlin Group's investment managers are BlackRock, Credit Agricole, Weiss Peck & Greer and Alliance Capital.

As at December 31, 2005, fixed income securities and cash and cash equivalents held by the Catlin Group totaled \$2.371 billion. The Catlin Group's fixed income portfolio of \$1.744 billion consisted of US and non-US sovereign government obligations, corporate bonds and short-term securities. As at June 30, 2006, fixed income

securities and cash and cash equivalents held by the Catlin Group totaled \$2.499 billion and its fixed income portfolio totaled \$1.694 billion. Of these assets, more than 90% were rated AA– or Aa3 or better by either Standard & Poor’s or Moody’s, with an overall weighted average rating of AAA. The Catlin Group’s investment guidelines limit its aggregate exposure to any single issuer to 5% for securities rated AA–/Aa3 or above, and to 2% of the Catlin Group’s portfolio for securities rated between A–/A3 to A+/A1, other than with respect to US Government and Agency securities and securities issued by other member governments of the Organization for Economic Co-operation and Development (OECD).

The current duration target varies by individual invested asset with an average target of two to four years. The duration of an investment is based on the maturity of the security and also reflects the payment of interest and the possibility of early principal payment of such security. Management reviews and periodically amends the Catlin Group’s investment guidelines based on business and economic factors, including the average duration of the Catlin Group’s liabilities. As at December 31, 2005, the Catlin Group’s investment assets, including cash and short-term instruments, had an approximate average duration of 2.32 years (after taking into account the inflation factor built into the Catlin Group’s treasury inflation linked securities which shortens the duration for these securities).

The fair values and amortized costs of fixed maturities as at June 30, 2006 and 2005 and December 31, 2005, 2004 and 2003 were as follows:

	As at June 30,				As at December 31,					
	2006		2005		2005		2004		2003	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(in thousands)									
US government and agencies	\$ 857,888	\$ 886,125	765,592	757,448	\$ 860,839	\$ 869,655	\$ 741,900	\$ 728,857	\$390,865	\$385,316
Non-US governments . . . . .	334,325	340,053	201,094	200,375	378,339	381,449	140,768	140,737	36,916	36,814
Corporate securities . . . . .	235,395	240,044	304,025	306,355	277,575	281,500	301,601	302,889	190,847	190,542
Asset-backed securities . . . . .	266,110	269,060	260,939	261,739	227,290	229,364	267,929	268,531	137,277	137,379
Total fixed maturities . . . . .	<u>\$1,693,718</u>	<u>\$1,735,282</u>	<u>1,531,650</u>	<u>1,525,917</u>	<u>\$1,744,043</u>	<u>\$1,761,968</u>	<u>\$1,452,198</u>	<u>\$1,441,014</u>	<u>\$755,905</u>	<u>\$750,051</u>

The composition of the amortized cost of fixed maturities by ratings assigned by ratings agencies as at June 30, 2006 and December 31, 2005, 2004 and 2003 were as follows:

	As at June 30,				As at December 31,					
	2006		2005		2005		2004		2003	
	Amortized Cost	%	Amortized Cost	%	Amortized Cost	%	Amortized Cost	%	Amortized Cost	%
	(in thousands, except percentages)									
US government and agencies . . . . .	\$ 886,126	51%	757,448	50%	\$ 869,655	49%	\$ 764,867	53%	\$385,316	51%
Non-US governments	340,053	20%	200,375	13%	381,449	22%	102,879	7%	36,814	5%
AAA . . . . .	337,650	19%	400,286	26%	337,923	19%	375,386	26%	163,084	22%
AA . . . . .	84,080	5%	59,209	4%	74,210	4%	78,914	6%	56,576	8%
A . . . . .	87,373	5%	108,599	7%	98,731	6%	117,562	8%	108,261	14%
BBB . . . . .	—	—%	—	—%	—	—%	1,406	—%	—	—%
Total fixed maturities	<u>\$1,735,282</u>	<u>100%</u>	<u>1,525,917</u>	<u>100%</u>	<u>\$1,761,968</u>	<u>100%</u>	<u>\$1,441,014</u>	<u>100%</u>	<u>\$750,051</u>	<u>100%</u>

Fixed maturities as at June 30, 2006 and December 31, 2005, 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.

	As at June 30, 2006		As at December 31, 2005	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(in thousands)			
Due in one year or less . . . . .	\$ 272,453	\$ 274,832	\$ 104,323	\$ 105,281
Due after one through five years . . . . .	726,847	743,285	905,707	914,919
Due after five years through ten years . . . . .	425,606	445,229	503,939	509,625
Due after ten years . . . . .	<u>2,702</u>	<u>2,877</u>	<u>2,783</u>	<u>2,779</u>
	1,427,608	1,466,223	1,516,752	1,532,604
Asset-backed securities . . . . .	<u>266,110</u>	<u>269,059</u>	<u>227,291</u>	<u>229,364</u>
Total . . . . .	<u>\$ 1,693,718</u>	<u>\$1,735,282</u>	<u>\$1,744,043</u>	<u>\$1,761,968</u>

The following table shows net investment income, net realized (losses)/gains on investment and total investment income including unrealized investment gains:

	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005	For the Year Ended December 31,		
			2005	2004	2003
	(in thousands)				
Net investment income . . . . .	\$ 51,922	\$36,849	\$ 82,147	\$46,974	\$23,796
Net realized (losses)/gains on investments . . . . .	(7,633)	1,339	(1,520)	3,358	1,151
Net unrealized (losses)/gains on investments . . . . .	<u>(23,441)</u>	<u>(5,417)</u>	<u>(29,015)</u>	<u>5,254</u>	<u>3,697</u>
Total investment return . . . . .	<u>\$ 20,848</u>	<u>\$32,771</u>	<u>\$ 51,612</u>	<u>\$55,586</u>	<u>\$28,644</u>

### Principal Shareholders

As of December 31, 2006, Catlin Group Limited had been notified that the following persons were interested directly or indirectly in 3% or more of its issued ordinary share capital:

Shareholder	Number of Common Shares	Proportion of Issued Share Capital
Fidelity . . . . .	16,282,478	6.8%
CMBP II (Cayman) Catlin Ltd. and CMBP II Parallel (Cayman) Catlin Ltd(1)(3) . . . . .	13,753,349	5.8%
Barclays PLC . . . . .	13,091,899	5.5%
CB-Catlin Inc(1)(4) . . . . .	9,400,751	3.9%

- (1) Warrants entitling the holders to purchase shares for \$5 per share are outstanding over 14,944,051 shares as of December 29, 2006.
- (2) Based on 238,283,281 shares outstanding as of December 29, 2006.
- (3) CMBP II (Cayman) Catlin Ltd. and CMBP II Parallel (Cayman) Catlin Ltd. together hold warrants to purchase 4,414,194 of the shares subject to warrant.
- (4) CB-Catlin Inc. holds warrants to purchase 1,237,624 of the shares subject to warrant.

### Litigation

Catlin Bermuda and the Catlin Group are parties to a number of legal proceedings arising in the ordinary course of their business. While the results of the litigation cannot be predicted with certainty, we believe, except as described below, that there have been no governmental, legal or arbitration proceedings which may have, or

have had during the 12 months preceding the date of this document, a significant effect on the financial position or profitability of Catlin Bermuda and/or the Catlin Group and, so far as we are aware, no such proceedings are pending or threatened by or against Catlin Bermuda or the Catlin Group.

***Political risk coverage dispute***

The Catlin Syndicate is party, along with its co-insurers, to an arbitration against its insured over the scope of coverage provided by a political risk policy for losses allegedly incurred to investments during the Argentine financial crisis in 2002. The amount in dispute is approximately \$16 million for the Catlin Syndicate's share.

***Delay in start-up/efficacy coverage dispute***

The Catlin Syndicate is party, along with its co-insurers, to an arbitration against its insured over coverage for cost overruns, delay in start up and efficacy costs at an oil sands project in Canada. Insurers have avoided the policy on the basis of non-disclosure and misrepresentation by the insured at the time of the placing of the risk. The amount in dispute is C\$25.25 million for the Catlin Syndicate's share (although the Catlin Syndicate's exposure after application of reinsurance would be significantly less). In addition, the insured has asserted a claim for extra-contractual damages of C\$800 million against all its insurers. The Catlin Syndicate's share of the insurance contract is approximately 12.5%. Based upon legal advice, the Catlin Group and Catlin Bermuda do not believe that there is any legal or factual basis for the extra-contractual claim.

**The Wellington offer**

On December 18, 2006, Catlin Group Limited announced that its recommended offer to acquire all of the issued and to be issued share capital of Wellington had been declared unconditional. The offer involved an offer of both cash and shares of Catlin Group Limited to Wellington shareholders, and valued each Wellington share at approximately 122 pence. This valued the issued share capital of Wellington at approximately £602 million.

Wellington is the holding company of an international insurance and reinsurance group. The core of the Wellington Group's business is in the Lloyd's insurance market, where the Wellington Group manages and underwrites a diversified book of insurance and reinsurance business.

Prior to the acquisition of Wellington by Catlin Group Limited, the Wellington Group conducted its underwriting activities through:

- the management by Wellington Underwriting Agencies Limited of Syndicate 2020, and its participation on Syndicate 2020 through the Wellington Corporate Members (the Wellington Group's participation on Syndicate 2020 amounted to 56% for the 2004, 66% for the 2005 and 67% for the 2006 years of account;
- Wellington Underwriting Inc., an underwriting agency in the United States which underwrote or introduces insurance and reinsurance business to Syndicate 2020; and
- Wellington Specialty Insurance Company, a non-admitted excess and surplus lines carrier in the United States which writes direct casualty and non-catastrophe property business for small commercial specialty risks in the United States and which has an A.M. Best rating of A- (Excellent).

Syndicate 2020 had premium income capacity of £800 million for the 2006 year of account. Syndicate 2020 underwrote a diverse book of business which includes exposures from around the world in the following areas: accident and health, aviation, energy, liability, marine and war, property and reinsurance risks. Syndicate 2020 is rated A (Excellent) by A.M. Best, 3pi by Standard & Poor's and A2 by Moody's.

On December 18, 2006 the Catlin Group announced that Lloyd's had approved the cessation of Wellington's Syndicate 2020. The Catlin Group has had the benefit of full ownership of the enlarged capacity of its Syndicate 2003 with effect from January 1, 2007.

Wellington also progressively reduced its investment in shares of Aspen, a Bermuda based insurance holding company with operations in the insurance and reinsurance markets in London, Bermuda and the United States, to

zero. Wellington now only holds options to acquire approximately 3.8 million further Aspen shares (representing approximately 3.6% of Aspen's issued share capital).

For the year to December 31, 2005, the Wellington Group reported gross written premiums of £523.4 million, a post-tax loss (on an IFRS basis) of £13.7 million, primarily as a result of the impact of the 2005 hurricanes in the United States, and declared a full year dividend of 4.0 pence per share. For the six months to June 30, 2006, the Wellington Group reported gross written premiums of £357.7 million, profits after tax (on an IFRS basis) of £17.6 million and declared an interim dividend of 1.6 pence per share payable in respect of the six months ended June 30, 2006 to Wellington shareholders on the share register as at September 15, 2006. As at June 30, 2006, the Wellington Group had total shareholders' equity of £358.2 million, equivalent to 74.3 pence per share.

We believe that the Catlin Group's and the Wellington Group's existing businesses are a strong complementary fit and the acquisition of Wellington is expected to bring material benefits to both businesses. The Catlin Group post-acquisition will be a major international specialty insurance business with well established underwriting platforms in the United Kingdom and Bermuda and a significantly enhanced underwriting and distribution platform in the United States.

We believe that both businesses have strong operational and underwriting expertise which will be further strengthened and diversified through the combination. While in 2006 both the Catlin Group and Wellington had among the largest Lloyd's syndicates, the Catlin Group has a well developed Bermuda platform — an area where Wellington, prior to the announcement of the recommended offer, had plans to expand. In the US, Wellington has a growing business generating approximately \$280 million in gross premiums written in 2006 which will accelerate the Catlin Group's existing plans to develop in that market. The combination therefore creates the opportunity for both significant cost savings and revenue growth. Each of the Catlin Group's core operating platforms — the Catlin Syndicate, Catlin Bermuda, Catlin US and Catlin UK — will be strengthened as a result of the acquisition.

The acquisition is expected to have a direct impact on Catlin Bermuda. A significant portion of the Catlin Group's risks are ceded to us through intra-group reinsurance contracts. The acquisition is expected to increase the premiums written by the Catlin Group, and as a result the intra-group reinsurance premium flowing to Catlin Bermuda is expected to increase as well.

Following the integration of Wellington into the Catlin Group, the Catlin Group will review the resulting corporate structure and may consider reorganising the structure of the Catlin Group.

## MANAGEMENT

### Catlin Bermuda Management

#### *Directors of Catlin Bermuda*

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stephen Catlin . . . . .	52	Chairman
Kenneth Goldstein . . . . .	63	Deputy Chairman
Graham Pewter . . . . .	53	President and Chief Executive Officer
Jasmine Haffejee . . . . .	38	Chief Financial Officer
Brian Patterson . . . . .	44	Counsel
Jonathan Gale . . . . .	39	Underwriting Director
Richard Banas . . . . .	53	President and Chief Executive Officer, Catlin Inc.
Paul Brand . . . . .	43	Chief Underwriting Officer, Catlin Group Limited
William Chauvin . . . . .	53	Vice President, Secretary and Treasurer, Catlin Inc.
Andreas Loucaides . . . . .	53	Chief Executive, Catlin Insurance Company (UK) Ltd.
Barry McDonald . . . . .	49	Chief Investment Officer and Treasurer, Catlin Group Limited
Christopher Stooke . . . . .	49	Chief Financial Officer, Catlin Group Limited

The business address for all Catlin Bermuda Board members and members of the executive management committee below, is c/o Catlin Insurance Company Ltd., Cumberland House, 6th floor, 1 Victoria Street, Hamilton HM 11, Bermuda.

#### *Executive Management Committee of Catlin Bermuda*

<u>Name</u>	<u>Age</u>	<u>Position</u>
Graham Pewter . . . . .	53	President and Chief Executive Officer
Lesley Caslin . . . . .	43	Director of Finance and Operations
Jonathan Gale . . . . .	39	Underwriting Director
Jasmine Haffejee . . . . .	38	Chief Financial Officer
Barry McDonald . . . . .	49	Chief Investment Officer and Treasurer, Catlin Group Limited
Brian Patterson . . . . .	44	Counsel
Lisa Robinson . . . . .	43	Human Resources Director

**Stephen Catlin (52)**, Chairman, began his insurance career in 1973 with BL Evens & Others on Syndicate 264 and became Deputy Underwriter in 1982. He founded Catlin Underwriting Agencies Limited in 1984. He is currently a member of the Lloyd's Franchise Board and has previously served as a member of the Council of Lloyd's, Director of Equitas Holdings Limited and Chairman of the Lloyd's Market Association.

**Kenneth Goldstein (63)**, Director and Deputy Chairman, joined the board of Catlin Bermuda as a non-executive member in August of 2002, and was made Deputy Chairman in March of 2006. He has over 40 years of insurance industry experience, having worked with AIG for 10 years, then with the St Paul Fire and Marine Group for 10 years, and most recently as CEO of Universal Underwriters Group.

**Graham Pewter (53)**, President and Chief Executive Officer, joined the Catlin Group in 2003. Previously he served as President and Chief Executive Officer of Commercial Risk Partners Limited in Bermuda. He has served as President and Managing Director of LCF Edmond de Rothschild Insurance Services Limited in Bermuda and vice president and general manager of Cologne Reinsurance Company (Bermuda) Limited.

**Jasmine Haffejee (38)**, Director and Chief Financial Officer, joined Catlin Bermuda in 2005 as Head of Financial Reporting, becoming CFO in March 2006. Ms. Haffejee joined Ernst and Young in Ontario in 1992, then moved with them to Bermuda in 1994. She joined the reinsurance industry in 1995, working in several companies, most recently as Vice President and Chief Accounting Officer of Zurich Insurance Company, Bermuda Branch. She is a Chartered Accountant and an Associate in Reinsurance.

**Brian Patterson (44)**, Director and Legal Counsel, is responsible for the legal, compliance and claims activities of Catlin Bermuda, and also oversees the IT department. He received a Bachelor of Laws degree from the University of British Columbia in Vancouver in 1995, after which he returned to Bermuda to work in corporate law with Appleby Spurling & Kempe (now Appleby Hunter Bailhache). He joined Catlin Bermuda as Legal Counsel in March 2003, and is called to the Bars of British Columbia, Bermuda, and the Cayman Islands.

**Richard Banas (53)**, President & CEO of Catlin US, joined the Catlin Group on April 1, 2006. He was previously Chief Underwriting Officer of XL's General Professional Lines Business, CEO of XL Professional and XL Environmental, and Chief Underwriting Officer of XL Insurance. Prior to his employment at XL, he was Managing Director of One Beacon and Surplus Specialty Lines, Senior Vice President of Insurance operations with CGU, and held various Senior Management and Executive roles with St Paul Companies.

**Paul Brand (43)**, is Catlin Group Limited's Chief Underwriting Officer. He joined the Catlin Group in 1987 as a Class Underwriter. He served as Deputy Underwriter of Syndicate 1003 from 1990 and Syndicate 2003 from its formation in 1996, and served as Active Underwriter of Syndicate 2003 from 2003-2005. He was appointed Group Chief Underwriting Officer in 2003. Formerly he worked in the marine underwriting department at Insurance Company of North America in London.

**William Chauvin (53)**, is Vice President, Secretary and Treasurer of Catlin Inc. He joined the Catlin Group in 1999 when the Group acquired BCC Underwriters Inc. He was formerly Founding Principal of BCC Underwriters; Chief Administrative Officer and Founding Principal of Global Special Risks Inc; Corporate Controller of Southern Marine & Aviation Underwriters Inc.; and a Senior Accountant with Price Waterhouse (now PricewaterhouseCoopers). He is a Certified Public Accountant.

**Jonathan Gale (39)**, Underwriting Director, joined the Catlin Group in 2002 as a class underwriter in London and joined Catlin Bermuda in 2004 as Underwriting Director. He was formerly Deputy Underwriter for Lloyd's Syndicate 138, managed by R F Bailey (Underwriting Agencies) Limited and has worked as a medical malpractice and reinsurance underwriter with CAN Reinsurance Company in London and Chicago.

**Andreas Loucaides (53)**, is Chief Executive of Catlin Insurance Company (UK) Limited. He joined the Catlin Group in 2004. He has served as chief executive of PRI Group plc and was Deputy Underwriter and subsequently Active Underwriter of Lloyd's Syndicate 702, managed by R E Brown & Others. He was Outward Reinsurance Manager of British National Insurance Company; and a treaty reinsurance broker at Lowndes Lambert Group.

**Barry McDonald (49)**, is currently Chief Investment Officer and Treasurer of Catlin Group Limited. He joined CICL in September 2003 and served as Chief Financial Officer of CICL from 2004-2006. He was formerly Vice President-Finance of Commercial Risk Partners Limited of Bermuda; General Manager of Cologne Reinsurance Company in Bermuda; and Treasury Manager of GRE Reinsurance Company Limited of Bermuda. He is a Chartered Accountant and a Chartered Financial Analyst.

**Christopher Stooke (49)**, was appointed Chief Financial Officer of Catlin Group Limited on joining Catlin in 2003. He is a Chartered Accountant and has specialized in financial services, particularly insurance, since 1983. He was previously a Partner with PricewaterhouseCoopers, holding leadership positions in the financial services practice in both their London and Zurich offices. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

**Lesley Caslin (43)**, Director of Finance and Operations for Catlin Bermuda, is responsible for overseeing operations in Bermuda and Finance operations for Catlin Group. She joined Catlin Bermuda in July 2005 having previously worked at XL Re for ten years, most recently as Senior Vice President and Chief Financial Officer of XL Re Latin America. She is a Chartered Accountant.

**Lisa Robinson (43)**, Human Resources Director, is responsible for recruitment, compensation, training and development, and employee relations activities of Catlin Bermuda. She joined in December 2002, having previously worked as Office Manager for Griffiths & Wanklyn Reinsurance Brokers Ltd. She is an active member of the Bermuda Human Resource Association and the Society for Human Resource Managers.

### **Catlin Group Management**

#### ***Directors of Catlin Group Limited***

<u>Name</u>	<u>Age</u>	<u>Position</u>
Sir Graham Hearne .....	68	Chairman
Stephen Catlin .....	51	Chief Executive & Deputy Chairman
Christopher Stooke .....	49	Chief Financial Officer
Alan Bossin .....	54	Non-Executive Director
Michael Crall .....	62	Non-Executive Director
Jean Claude Damerval .....	62	Non-Executive Director
Michael Eisenson .....	50	Non-Executive Director
Michael Harper .....	61	Non-Executive Director
Richard Haverland .....	64	Non-Executive Director
Michael Hepher .....	62	Non-Executive Director
Jonathan Kelly .....	42	Non-Executive Director
Gene Lee .....	32	Non-Executive Director

#### ***Executive Officers of Catlin Group Limited***

<u>Name</u>	<u>Age</u>	<u>Position</u>
Paul Jardine .....	45	Chief Operating Officer
Paul Brand .....	43	Catlin Group Chief Underwriting Officer
Janet Nelson .....	56	Catlin Group Chief Risk Officer
Graham Pewter .....	53	President and Chief Executive Officer, Catlin Bermuda
Andreas Loucaides .....	53	Chief Executive, Catlin UK
Richard Banas .....	53	President and Chief Executive Officer, Catlin US

#### ***Catlin Group Executive Committee***

The Catlin Group Executive Committee includes all the executive officers of Catlin Group Limited, as well as Stephen Catlin and Christopher Stooke.

## REGULATION

The Catlin Group operates its insurance underwriting activities through four underwriting platforms:

- Catlin Bermuda
- the Catlin Syndicate
- Catlin UK
- Catlin US

The legal entities through which the Catlin Group's underwriting platforms conduct business are identified and described in "Description of the Catlin Group".

The principal regulatory bodies for the Catlin Group's insurance and reinsurance underwriting activities are:

- for Catlin Bermuda: the Bermuda Monetary Authority
- for the Catlin Syndicate: Lloyd's and the UK Financial Services Authority (FSA)
- for Catlin UK: the UK Financial Services Authority (FSA)
- for Catlin US: the Texas Department of Insurance and the Delaware Department of Insurance

Catlin Group companies are also licensed or subject to regulatory oversight in the United States, Europe, Australia, Canada and Asia.

### Insurance Regulation in Bermuda

Bermuda's Insurance Act 1978 provides that no person shall carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority under the Insurance Act. Insurance and reinsurance activities are regulated under the Insurance Act. Catlin Bermuda, which is licensed to carry on general insurance, is registered as a Class 4 insurer in Bermuda and is regulated as such under the Insurance Act. The continued registration of Catlin Bermuda as an insurer is subject to it complying with the terms of its registration and such other conditions as the Bermuda Monetary Authority may impose from time to time. The day-to-day supervision of insurers is the responsibility of the Bermuda Monetary Authority.

The Insurance Act also imposes auditing and reporting requirements and grants the Bermuda Monetary Authority powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies. An insurer's registration may be cancelled by the Bermuda Monetary Authority on certain grounds specified in the Insurance Act, including failure of the insurer to comply with its obligations under the Insurance Act or if, in the opinion of the Bermuda Monetary Authority, the insurer has not been carrying on business in accordance with sound insurance principles.

Catlin Bermuda is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. Without a reason acceptable to the Bermuda Monetary Authority, an insurer may not terminate the appointment of its principal representative, and the principal representative may not cease to act as such, unless 30 days' notice of the intention to do so is given in writing to the Bermuda Monetary Authority. As a registered Class 4 insurer, Catlin Bermuda is required annually to file a Statement of Actuarial Opinion regarding the reasonableness of the loss and loss adjustment reserves established by Catlin Bermuda. Under the Insurance Act, the value of the general business assets of a Class 4 insurer, such as Catlin Bermuda, must exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin.

Under the Bermuda Companies Act, Catlin Bermuda may declare or pay a dividend only if it has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or that the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Further, Catlin Bermuda may not declare or pay any dividend during any financial year if it would cause Catlin Bermuda to fail to meet its relevant margins pursuant to the Insurance Act.

The Insurance Act provides minimum solvency and liquidity standards for general business insurers. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of

the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable and reinsurance balances receivable. There are certain categories of assets which, unless specifically permitted by the Bermuda Monetary Authority, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined).

The Bermuda Monetary Authority may appoint an inspector with extensive powers to investigate the affairs of an insurer if it believes that an investigation is required in the interest of the insurer's policyholders or persons who may become policyholders. In addition, the BMA conducts regular onsite reviews of Class 4 insurers to satisfy itself that they are being managed appropriately. Catlin Bermuda was the subject of such a review which resulted in a satisfactory report dated 26 July 2006 wherein "no recommendations" for change were made by the BMA.

In order to verify or supplement information otherwise provided to the Bermuda Monetary Authority, the Bermuda Monetary Authority may direct an insurer to produce documents or information relating to matters connected with the insurer's business.

If it appears to the Bermuda Monetary Authority that there is a risk of the insurers becoming insolvent, or that it is in breach of the Insurance Act or any conditions imposed upon its registration, the Bermuda Monetary Authority may, among other things, direct the insurer (a) not to take on any new insurance business, (b) not to vary any insurance contract if the effect would be to increase the insurer's liabilities, (c) not to make certain investments, (d) to realize certain investments, (e) to maintain in, or transfer to the custody of, a specified bank, certain assets, (f) not to declare or pay any dividends or other distributions or to restrict the making of such payments and/or (g) to limit its premium income.

### **Insurance Regulation in the United Kingdom**

The transaction of insurance business in the United Kingdom is a regulated activity. The UK Financial Services Authority, or the FSA, regulates both UK insurance companies and Lloyd's itself. Lloyd's has retained certain of its supervisory functions in relation to the Lloyd's market and carries out other supervisory functions in parallel with the FSA.

Lloyd's itself, in relation to the insurance business carried on by its members (both current and in run-off) in the aggregate, is subject to capital adequacy requirements which are risk-based. Lloyd's has for many years imposed capital requirements on its members. Lloyd's continues to do so in order that it can meet its own aggregate capital requirements. Lloyd's capital requirements for 2006 were based on its own risk based capital model to a level that there is a probability of insolvency of one in 200 years. Lloyd's reviews this assessment and has the power to adjust it if deemed appropriate. Lloyd's then applied an uplift of 35% to a level which will support Lloyd's higher financial strength rating. As a transitional measure Lloyd's has also continued to apply a minimum risk based capital ratio of 40% of capacity.

For 2007, Lloyds has indicated that the capital loading will vary between syndicates, depending on the tail and catastrophe risk. It is expected that the uplift will range between 30% and 40% and average out at 35% across the market. For 2006, which was regarded as a transitional year, it was agreed that syndicate-level Economic Capital Assessments (ECAs) would not differ by more than 15% either way from the capital requirements calculated under the previous market average based regime. For 2007, this capital corridor will be widened to 20%, subject to syndicate-level capital being at least as high as the syndicate Individual Capital Assessment itself.

The goal at Lloyd's is to develop a regime whereby capital for each member or syndicate is based on the unique risk characteristics of the business, rather than market average assumptions. Going forward, Lloyd's is expected to set higher overall capital levels to meet its Optimal Platform objectives. Bearing in mind the impact of the 2005 hurricanes on rating agency models, the Franchise Board has expressed its firm opinion that capital levels for catastrophe-exposed business will increase for the 2007 year of account. New ICA guidance issued in March 2006 indicates that syndicate ICAs will move to a three-year model for 2008, with syndicate-specific data

used to assess both frequency and severity of loss (including total value at risk for economic uplift). The possibility of moving to differential Central Fund contributions is also being considered.

Managing agents are responsible for ensuring that syndicates managed by them have at all times sufficient financial resources to support the insurance business written by them. Managing agents must establish appropriate controls over risk affecting the insurance business carried on through syndicates.

The FSA's requirements for firms carrying on insurance and/or reinsurance business cover areas such as:

- conduct of business;
- prudential supervision of insurers, insurance groups and investment firms, requiring insurers and reinsurers to maintain adequate margins of solvency (namely the margin by which assets exceed liabilities), and investment firms to maintain financial resources in excess of certain financial resources requirements;
- internal systems and controls, including approval by the FSA of persons carrying on certain key functions which are identified in the FSA handbook; and
- extensive periodic reporting requirements.

Failure to comply with the relevant legal and regulatory requirements could lead to the FSA taking disciplinary and/or remedial action (including public statements and censure and/or financial penalties) against a firm, or employing measures to secure redress or restitution (such as requiring a firm to compensate its customers). The FSA also has the power to cancel or vary a firm's permission, or to withdraw a firm's authorization.

Both the FSA and Lloyd's have substantial powers of intervention in relation to the entities they regulate. The FSA's wide powers of intervention and investigation under the FSMA allow it, among other things, to compel an insurance or reinsurance company to establish reserves to cover future liabilities and to require an insurance company to take such action as appears to the FSA to be appropriate to protect policyholders against the risk that the relevant company may be unable or unwilling to meet its liabilities. In certain circumstances, such action may include limiting a company's declaration and distribution of dividends. The FSA also has the power to require an authorized firm to provide specified information or produce specified documents, to the extent that such information or documents are reasonably required by the FSA in connection with the exercise of its functions under FSMA. If necessary, the FSA may in addition require an authorized firm (or any member of its group) to provide the FSA with a report (prepared by a person nominated or approved by the FSA) on any matter in relation to which it has required or could require information or production of documents.

### *Regulatory capital*

With regard to regulatory capital requirements, each UK insurance company authorised outside Lloyd's is currently required to maintain a minimum capital requirement in accordance with the Prudential Sourcebooks GENPRU and INSPRU; report on whether it has met an enhanced capital requirement and assess the adequacy of its capital resources in the light of its own risk profile; and make a risk sensitive calculation of capital resource requirements based on its business profile. The FSA may then, if appropriate, require it to maintain a higher level of capital. Equivalent rules are applied to Lloyd's corporate members by the Society of Lloyd's.

Every FSA authorised insurer (including pure reinsurers) that is a subsidiary of an insurance parent undertaking and whose head office is in the United Kingdom is required to report on its group's capital adequacy at the ultimate insurance parent company level and at the ultimate European Economic Area, or EEA, insurance parent company level (if different). From December 31, 2006 (and from December 31, 2007 in the case of pure reinsurers) a positive group capital adequacy will be required at that EEA level, in addition to the requirements in relation to the insurer's individual solvency.

Lloyd's corporate members are not authorized by the FSA and are not required to report on group capital adequacy, but if they are part of an insurance group which includes UK insurers so authorized, the group capital adequacy report must cover them as if they were so authorised.

### *New developments*

The EU Commission is currently reviewing solvency margins and reserves for insurers and a directive, known as “Solvency II”, is expected to be proposed in 2007. The FSA is currently exploring market solutions to improve contract certainty (*i.e.*, documentation and inception of risk) in the insurance industry and may ultimately pursue regulatory intervention, although its current focus is on achieving progress through discussions with the industry.

### **Insurance Regulation in the United States**

Catlin Group companies in the United States operate as licensed insurance carriers, non-admitted insurance carriers, surplus lines brokers or managing general agencies; in addition, the activities of the Catlin Syndicate, Catlin Bermuda and Catlin UK are regulated in connection with their underwriting surplus lines business in the US market.

Catlin Underwriting Agency US, Inc. is licensed as a surplus lines broker and managing general agency by the Texas Department of Insurance. Catlin Underwriting Agency US, Inc. of Louisiana is licensed as a broker and as a surplus lines broker by the Louisiana Department of Insurance and holds non-resident licenses as a broker and surplus lines broker in Mississippi, Illinois and New York. Catlin Insurance Services of California Inc. is licensed by the California Department of Insurance as a surplus lines broker. Catlin US is domiciled in Texas and is an admitted insurer in Texas and other US states. Catlin Bermuda is eligible to write surplus lines business in some 40 US states, Catlin UK is eligible in 39, with six pending and Catlin Underwriting Agency US, Inc. of New York is licensed as an excess lines broker by the New York Department of Insurance.

Insurance business in the US is primarily regulated at the state level. States across the US all follow the same basic pattern for licensing insurers. Each state sets basic requirements for licensure, also referred to as “admission” requirements. Although there are variations, there are generally comparable solvency standards in all states. Each licensed company has a domestic state, usually the state where it was initially licensed, which serves as its primary regulator for solvency issues. In addition, there are multi-state checks on the domestic states, through the auspices of the National Association of Insurance Commissioners, or NAIC. Most insurance in the United States is written by a licensed insurance company.

Coverage for difficult to place risks is often written by insurers who operate in the surplus lines market. State laws provide a structure for the surplus lines market to operate. Generally, surplus lines policies are written for property and casualty lines of insurance, although some accident and health coverage is also written. Most states prohibit surplus lines insurers from writing life insurance. Regulation for surplus lines is much less restrictive than the admitted market; surplus lines insurers do not face rate or policy form regulation, nor are they usually subject to mandatory membership in state guaranty funds.

The Catlin Syndicate is subject to United States regulation in its ability to write surplus lines business in the US market. The Catlin Syndicate is able to write surplus lines business under the eligibility criteria established by Lloyd’s as a surplus lines insurer in all states except Kentucky. Each state has a statute establishing the minimum trust fund which must be maintained in the US for a Lloyd’s member to operate in that state.

Regulation of surplus lines brokers is also conducted by licensing being required at state level. Surplus lines brokers are typically required to verify that a “diligent effort” has been made to place the risk in the admitted market before seeking to place a risk in the surplus lines market. This requirement is the primary barrier to opening up the entire property and casualty insurance market to surplus lines policies. In approximately 13 states, lists of types of coverage automatically allowed to be placed in the surplus lines market are issued. In addition, surplus lines brokers are required by state laws and regulations to perform specified functions, such a verification of the eligibility of the carrier, collection and payment of premium taxes, and other required regulatory filings.

Both Catlin Bermuda and the Catlin Syndicate write reinsurance for US risks. Regulation of reinsurance, similarly to direct insurance, is also primarily a function performed by state insurance departments. Reinsurance regulations include the regulation of the credit for reinsurance which may be taken in the financial statements by the direct insurers. For alien reinsurers, an important component of credit for reinsurance relates to the required collateralization of the liabilities assumed. In addition to credit for reinsurance standards, there are key laws or

regulations in place in every state which specify standards to determine that a transfer of risk has occurred, and the types of risk which constitute insurance risk.

It is necessary, at a minimum, to notify, and in some instances obtain approval of, the various US regulatory authorities in relation to a change of control of regulated entities.

## RELATED PARTY TRANSACTIONS

In its ordinary course of business, Catlin Bermuda enters into operating and financial arrangements with other members of the Catlin Group. These include the following:

### Intra-group Reinsurance Contracts

As of June 30, 2006 and December 31, 2005, there were three types of intra-group reinsurance contracts in place that ceded risk from the Catlin Syndicate to Catlin Bermuda:

- Whole account qualifying quota share contracts of 10% on the 2004 year of account, 30% on the 2003 year of account and 20% on the 2002 year of account;
- A 50% whole account corporate quota share contract; and
- A long-tail stop loss contract, covering certain long-tail casualty classes of business.

All of the above contracts cede Catlin Syndicate risk to Catlin Bermuda. In addition, there is a 60% whole account quota share contract, which cedes Catlin UK risk to Catlin Bermuda, which is eliminated on consolidation of the CICL Group. A 75% corporate quota share contract, ceding CICI risk to Catlin Bermuda was entered into in the fourth quarter of 2006.

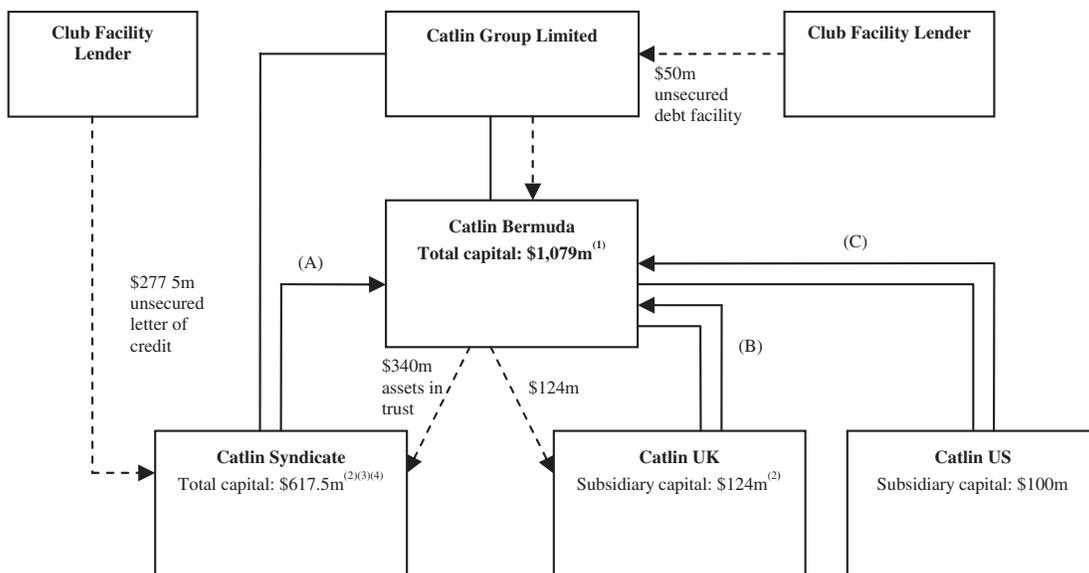
The qualifying quota share contracts on the 2002 and 2003 years of account were commuted in the fourth quarter of 2006.

Please refer to “Description of Catlin Bermuda and the CICL Group — Related Party Reinsurance Contracts” for a more detailed description of these contracts.

### Capital Deployment

The Catlin Group’s objective is to centralize the underwriting risk, and therefore the underlying assets and capital, in Catlin Bermuda as much as possible given regulatory and other constraints. As at June 30, 2006, the Catlin Group’s total borrowing was comprised of \$50 million of senior unsecured debt through the Club Facility and its stockholders’ equity was \$1.091 billion, of which \$1.079 billion was held in Catlin Bermuda. Of this amount, \$124 million was held in Catlin UK. The support for the Catlin Syndicate’s underwriting was provided by \$340 million of assets deposited by Catlin Bermuda in trust with Lloyd’s, as well as by the \$277.5 million unsecured letter of credit, which is co-guaranteed by Catlin Bermuda along with other Catlin Group companies.

The Catlin Group’s intra-group reinsurance arrangements and capital deployment as at June 30, 2006 is illustrated in the following diagram.



- (A) Whole account qualifying quota share contracts of 10% on the 2004 Year of Account, 30% on the 2003 Year of Account and 20% on the 2002 Year of Account
  - 50% whole account corporate quota share contract
  - Long tail stop loss contract
- (B) 60% whole account quota share contract
- (C) 75% whole account quota share contract entered into in fourth quarter of 2006
  - (1) As of June 30, 2006.
  - (2) The Catlin Syndicate and Catlin UK capital is denominated in pounds sterling; exchange rate at June 30, 2006 was £1 = \$1.85.
  - (3) 2006 Syndicate capacity reduced from £500 million to £450 million (\$832.5 million at £1 = \$1.85).
  - (4) Includes 2005 solvency funding of approximately \$150 million.

## DESCRIPTION OF THE SHARES

The following summary of the terms of the Shares does not purport to be complete and is qualified in its entirety by reference to the bye-laws of Catlin Bermuda, which will be available free of charge upon request, at the office of Appleby Corporate Services (Bermuda) Ltd., Canon's Court, 22 Victoria Street, PO Box HM 1179, Hamilton HM EX, Bermuda. As used in this section, "we", "us", "our" and "Catlin Bermuda" mean Catlin Insurance Company Ltd. and do not include its subsidiaries.

### General

The Shares will rank senior to our Junior Stock (as defined below under "— Dividends") and at least equally with each other series of our preference shares that we may issue with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding-up. At present, we have no issued shares that are senior to, or in parity with, the Shares with respect to payment of dividends and distribution of assets upon our liquidation, dissolution or winding-up. Our board of directors may from time to time create and issue preference shares of other series without the approval of our shareholders and fix their relative rights, preferences and limitations.

We will generally be able to pay dividends and distributions upon liquidation, dissolution or winding-up only out of lawfully available funds for such payment (*i.e.*, after satisfaction of indebtedness and other prior- ranking claims). The Shares will be fully paid and non-assessable when issued, which means that holders will have paid their purchase price in full and that we may not ask them to surrender additional funds. Holders of the Shares will not have pre-emptive or subscription rights to acquire more of our shares.

The Shares will not be convertible into, or exchangeable for, shares of any other class or series of shares or other securities of ours or our property or assets. The Shares have no stated maturity and will not be subject to any mandatory redemption, sinking fund, retirement fund, purchase fund or other obligation of ours to redeem, repurchase or retire the Shares.

We may issue additional Shares with the same rights, preferences, limitations and other terms as the Shares offered pursuant to this offering memorandum. However, for so long as any Shares remain outstanding, we will not issue any capital stock that will rank senior to the Shares as to dividends and/or distributions upon the liquidation, dissolution or winding-up of the affairs of Catlin Bermuda.

The Shares will be offered and sold, and may be transferred, only in amounts of \$100,000 and multiples of \$1,000 in excess thereof. Accordingly, holders of Shares must hold at least 100 Shares at any one time.

### Dividends

Holders of Shares will be entitled to receive, only when, as and if declared by our board of directors or a duly authorized committee of the board, out of funds legally available for the payment of dividends under Bermuda law, non-cumulative cash dividends at the fixed dividend rate, as described below, from the original issue date to, but not including, January 19, 2017, semi-annually in arrears in equal instalments (with the exception of the dividend payable on July 19, 2007) on January 19 and July 19 of each year, commencing on July 19, 2007, and thereafter quarterly in arrears on January 19, April 19, July 19 and October 19 of each year, commencing on April 19, 2017 at the floating rate, as described below, without accumulation of any undeclared dividends.

Dividends on the Shares are non-cumulative. Consequently, if our board of directors or a duly authorized committee of the board does not authorize and declare a dividend for any dividend period, holders of the Shares will not be entitled to receive a dividend for such period and such undeclared dividend will not accumulate and be payable. We will have no obligation to pay dividends for a dividend period after the dividend payment date for such period if our board of directors or a duly authorized committee of the board has not declared such dividend before the related dividend payment date, whether or not dividends are declared for any subsequent dividend period with respect to the Shares.

The dividend rate with respect to the Shares means the rate at which dividends will accumulate, to the extent declared, with respect to each dividend period, as described below. From the original issue date of the Shares up to but not including January 19, 2017, which we refer to as the “Fixed Rate Period”, to the extent declared, these dividends will accumulate in an amount per Share equal to 7.249% of the liquidation preference per annum. In the event that we issue additional Shares after the original issue date, to the extent declared, dividends on such additional Shares may accumulate, at the applicable dividend rate, from the issue date if such date is a dividend payment date or from the immediately preceding dividend payment date if the issue date is other than a dividend payment date.

A dividend period is the period from and including a dividend payment date to but excluding the next dividend payment date, except that the initial dividend period will commence on and include the original issue date of the Shares and will end on and exclude the July 19, 2007 dividend payment date. Dividends payable on the Shares in respect of a period (other than a full semi-annual dividend period) falling during the Fixed Rate Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. If any date on which dividends would otherwise be payable relating to the Fixed Rate Period is not a business day, as defined below, then the date on which the relevant dividend payment will be made will be the next succeeding business day after the original dividend payment date, and no additional dividends will accumulate on the amount so payable from such date to such next succeeding business day.

If any dividend payment date with respect to a floating rate period is not a business day, then such dividend payment date shall be postponed to, and dividends will be payable on, the first business day following such originally-scheduled dividend payment date unless such day is in the next calendar month, in which case such dividend payment date shall be brought forward to, and dividends will be payable on, the first business day preceding such originally-scheduled dividend payment date, and dividends in each case will accumulate to the actual dividend payment date. The amount of dividends payable per Share on each dividend payment date relating to a floating rate period will be computed by multiplying the per annum dividend rate in effect for such dividend period by a fraction, the numerator of which will be the actual number of days in such dividend period (or portion thereof) (determined by including the first day thereof and excluding the last day thereof) and the denominator of which will be 360, and multiplying the rates obtained (as described in “— Floating Rate Period” below) by the liquidation preference.

Dividends, if so declared, will be payable to holders of record of the Shares as they appear in our register of members on the applicable record date, which shall be the last calendar day of the month preceding that dividend payment date or such other record date fixed by our board of directors or a duly authorized committee of the board that is not more than 60 nor less than 10 days prior to such dividend payment date. These dividend record dates will apply regardless of whether a particular dividend record date is a business day. As used in this offering memorandum, “business day” means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is not a day on which banking institutions in New York City or Bermuda generally are authorized or obligated by law or executive order to close.

So long as any Shares remain outstanding for any dividend period, unless the full dividends for the latest completed dividend period on all outstanding Shares and Parity Stock have been declared and paid or declared and a sum sufficient for the payment thereof has been set aside:

- no dividend shall be paid or declared on our common shares or any other of our Junior Stock, other than a dividend payable solely in the form of our common shares or other Junior Stock; and
- no common shares or other Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by, or on behalf of, us (other than (1) as a result of a reclassification of Junior Stock for or into other Junior Stock or the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock or (2) through the use of the proceeds of a substantially contemporaneous sale of Junior Stock).

When dividends are not declared and paid or duly provided for in full on any dividend payment date on the Shares and any shares of Parity Stock, all dividends declared upon the Shares and all such Parity Stock and payable on such dividend payment date shall be paid on a *pro rata* basis so that the respective amounts of such

dividends shall bear the same ratio to each other as all declared but unpaid dividends per Share and all Parity Stock payable on such dividend payment date bear to each other. In the case of any Parity Stock having dividend payment dates different from the dividend payment dates pertaining to the Shares, the measurement date for such Parity Stock shall be the dividend payment date falling within the related dividend period for the Shares.

Catlin Group Limited will give a similar undertaking in relation to its junior and parity obligations in a Deed Poll.

As used in this offering memorandum, “Junior Stock” means any class or series of our shares that ranks junior to the Shares either as to the payment of dividends or as to the distribution of assets upon any liquidation, dissolution or winding-up of Catlin Bermuda. At present, Junior Stock comprises only our common shares.

As used in this offering memorandum, “Parity Stock” means any class or series of our shares that ranks equally with the Shares as to payment of dividends and in the distribution of assets on any liquidation, dissolution or winding-up of Catlin Bermuda.

### ***Floating Rate Period***

If we do not elect to redeem the Shares at the expiration of the Fixed Rate Period, then from the expiration of such Fixed Rate Period, dividends on the Shares, when, as and if declared by our board of directors or a duly authorized committee of the board, will be payable at a floating rate. The floating rate will equal 2.975% plus the 3-month LIBOR Rate and will be reset quarterly.

“3-month LIBOR Rate” means, with respect to any floating rate period, the rate (expressed as a percentage per annum) for deposits in US dollars for a 3-month period commencing on the first day of that dividend period that appears on Reuters page “LIBOR01” (or such other page or pages as may replace it for the purposes of displaying such information) as of 11:00 a.m. (London time) on the Dividend Determination Date for that dividend period. If such rate does not appear on Reuters page “LIBOR01” (or such other page or pages as may replace it for the purposes of displaying such information), 3-month LIBOR Rate will be determined on the basis of the rates at which deposits in US dollars for a 3-month period commencing on the first day of that dividend period and in a principal amount of not less than \$1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the calculation agent, at approximately 11:00 a.m., London time on the Dividend Determination Date for that dividend period. The calculation agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, 3-month LIBOR Rate with respect to that dividend period will be the arithmetic mean (rounded upward if necessary to the nearest hundredth of 1%) of such quotations. If fewer than two quotations are provided, 3-month LIBOR Rate with respect to that dividend period will be the arithmetic mean (rounded upward if necessary to the nearest hundredth of 1%) of the rates quoted by three major banks in New York City selected by the calculation agent, at approximately 11:00 a.m., New York City time, on the first day of that dividend period for loans in US dollars to leading European banks for a 3-month period commencing on the first day of that dividend period and in a principal amount of not less than \$1,000,000. However, if the banks selected by the calculation agent to provide quotations are not quoting as described above, 3-month LIBOR Rate for that dividend period will be the same as 3-month LIBOR Rate as determined for the previous dividend period. The establishment of 3-month LIBOR Rate for each dividend period by the calculation agent will (in the absence of manifest error) be final and binding.

“Dividend Determination Date” means the second London Banking Day immediately preceding the first day of the relevant dividend period in a floating rate period.

“London Banking Day” means any day on which commercial banks are open for general business (including dealings in deposits in US dollars) in London.

### **Certain Restrictions on Payment of Dividends**

Under Bermuda law, Catlin Bermuda may not declare or pay a dividend if there are reasonable grounds for believing that Catlin Bermuda is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of Catlin Bermuda’s assets would thereby be less than the aggregate of its liabilities and

its issued share capital and share premium accounts. Further, Catlin Bermuda may not declare or pay any dividend during any financial year if it would cause Catlin Bermuda to fail to meet its relevant margins pursuant to the Bermuda Insurance Act 1978 or any succeeding act.

### **Payment of Additional Amounts**

We will make all payments on the Shares free and clear of and without withholding or deduction at source for, or on account of, any taxes, fees, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Bermuda or any other jurisdiction in which we are organized (a “taxing jurisdiction”) or any political subdivision or taxing authority thereof or therein (“Covered Taxes”), unless such Covered Taxes are required to be withheld or deducted by (x) the laws (or any regulations or rulings promulgated thereunder) of a taxing jurisdiction or any political subdivision or taxing authority thereof or therein or (y) an official position regarding the application, administration, interpretation or enforcement of any such laws, regulations or rulings (including, without limitation, a holding by a court of competent jurisdiction or by a taxing authority in a taxing jurisdiction or any political subdivision thereof). If such a withholding or deduction at source is required for, or on account of, any Covered Taxes, we will, subject to certain limitations and exceptions described below, pay to the holders of the Shares such additional amounts as dividends as may be necessary so that every net payment made to such holders, after the withholding or deduction of Covered Taxes, will not be less than the amount that would have been received by such holders if no Covered Taxes had been withheld or deducted.

We will not be required to pay any additional amounts for or on account of:

(1) any tax, fee, duty, assessment or governmental charge of whatever nature that would not have been imposed but for the fact that such holder is or was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or is or was physically present in, the relevant taxing jurisdiction or any political subdivision thereof or otherwise has or had some connection with the relevant taxing jurisdiction or any political subdivision thereof or any taxing authority thereof or therein, other than by reason of the mere ownership of, or receipt of payment under, such Shares; or

(2) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge; or

(3) any tax, assessment or other governmental charge that is payable otherwise than by withholding or deduction from payments in respect of the Shares; or

(4) any tax, fee, duty, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder of such Shares to comply with any reasonable request by us addressed to the holder within 90 days of such request (a) to provide information concerning the nationality, residence or identity of the holder or (b) to make any declaration or other similar claim or satisfy any information or reporting requirement, which is required or imposed by statute, treaty, regulation or administrative practice of the relevant taxing jurisdiction or any political subdivision thereof or taxing authority thereof or therein as a precondition to exemption from all or part of such tax, fee, duty, assessment or other governmental charge; or

(5) any withholding or deduction required to be made pursuant to the Directive of the council of the European Union on the taxation of savings income (2003/48/EC) or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(6) any tax, duty, levy, assessment or other governmental charge which could have been avoided by payment being made by a dividend disbursing agent appointed by Catlin Bermuda in another jurisdiction; or

(7) any combination of items (1), (2), (3), (4), (5) and (6).

In addition, we will not pay additional amounts with respect to any payment on any such Shares to any holder who is a fiduciary, partnership, limited liability company or other pass-through entity if such payment would be required by the laws of the relevant taxing jurisdiction (or any political subdivision or relevant taxing authority thereof or therein) to be included in the income for tax purposes of a beneficiary or partner, settlor with respect to such fiduciary or a member of such partnership, limited liability company or other pass-through entity

or a beneficial owner to the extent such beneficiary, partner, settlor, member or beneficial owner would not have been entitled to such additional amounts had it been the holder of the Shares.

If we become obligated to pay any additional amounts as dividends as a result of a Change In Tax Law (as defined below), we will also have the option to redeem the Shares. See “— Tax Redemption” in this offering memorandum.

### **Liquidation Rights**

Upon any voluntary or involuntary liquidation, dissolution or winding-up of Catlin Bermuda, holders of the Shares and any Parity Stock are entitled to receive out of our assets legally available for distribution to shareholders, after satisfaction of indebtedness and other prior-ranking claims, if any, but before any distribution of assets is made to holders of our common shares, or any of our other shares of stock ranking junior to the Shares, a liquidating distribution in the amount of \$1,000 per Share plus declared and unpaid dividends, if any, without accumulation of any undeclared dividends. Holders of the Shares will not be entitled to any other amounts from us after they have received their full liquidation preference.

In any such distribution, if our assets are not sufficient to pay the liquidation preference in full to all holders of the Shares and all holders of any Parity Stock, the amounts paid to the holders of the Shares and to the holders of any Parity Stock will be paid *pro rata* in accordance with the respective aggregate liquidation preferences of those holders. If the liquidation preference has been paid in full to all holders of the Shares and any holders of Parity Stock, the holders of our other capital stock shall be entitled to receive all of our remaining assets according to their respective rights and preferences.

A consolidation, amalgamation, merger, arrangement, de-registration or a statutory share exchange involving Catlin Bermuda or the sale or transfer of all or substantially all of the shares of capital stock or the property or business or assets of Catlin Bermuda will not be deemed to constitute a liquidation, dissolution or winding-up of Catlin Bermuda.

### **Redemption**

Under Bermuda law, the source of funds that we, as a Bermuda company, may use to pay amounts to our shareholders on the redemption of their shares (1) in respect of the nominal or par value of those shares is limited to (a) the capital paid up on the shares being redeemed, (b) funds of Catlin Bermuda otherwise available for payment of dividends or distributions or (c) the proceeds of a new issuance of shares made for purposes of the redemption and (2) in respect of the premium over the nominal or par value of their shares is limited to (a) funds otherwise available for dividends or distributions or (b) the amounts credited to our share premium account before the redemption date of such shares.

Under Section 42 of the Companies Act 1981 (the “Companies Act”), we, as a Bermuda company, may not redeem the Shares or any other equity shares if, on the date of the redemption, there are reasonable grounds for believing that we are, or after the redemption would be, unable to pay our liabilities as they become due. A minimum issued share capital of \$1,000,000 must always be maintained.

Any redemption of the Shares by or on behalf of Catlin Bermuda is subject to Catlin Bermuda giving at least six months’ prior written notice to the BMA (or such shorter period of notice as the BMA may accept and, in any event, provided that such notice is required to be given) and complying with the requirements (if any) of any other regulator having jurisdiction over Catlin Bermuda or the CICL Group, on a consolidated basis, in connection with such redemption.

Our ability to effect a redemption of the Shares may be subject to the performance of our subsidiaries. The dividends and distributions to us from our insurance subsidiaries are also subject to applicable insurance laws and regulatory constraints. See “— Certain Restrictions on Payment of Dividends”.

The Shares are not subject to any mandatory redemption, sinking fund, retirement fund, purchase fund or other similar provisions. The Shares are not redeemable prior to January 19, 2017, except as described below under “— Redemption Following Certain Corporate Events”, “— Regulatory Event Redemption” and “— Tax

Redemption” or as otherwise set forth below. On and after that date, the Shares will be redeemable at our option, in whole or in part, on any dividend payment date, upon not less than 30 nor more than 90 days’ prior written notice, at a redemption price equal to \$1,000 per Share, plus declared and unpaid dividends, if any, to the redemption date, without accumulation of any undeclared dividends.

Holders of the Shares will have no right to require the redemption or repurchase of the Shares.

If the Shares are to be redeemed, the notice of redemption shall be given by first class mail to the holders of record of the Shares to be redeemed, mailed not less than 30 nor more than 90 days prior to the date fixed for redemption thereof; provided that, if the Shares are held in book-entry form through The Depository Trust Company, or DTC, we may give such notice in any manner permitted by DTC. Each notice of redemption will include a statement setting forth:

- the redemption date;
- the number of Shares to be redeemed and, if less than all the Shares held by such holder are to be redeemed, the number of such Shares to be redeemed from such holder;
- the redemption price; and
- if the Shares are in dematerialized form, the manner in which they should be delivered via book-entry transfer or, if in certificated form, the place or places where holders may surrender certificates evidencing the Shares for payment of the redemption price.

If notice of redemption of any Shares has been given and if the funds necessary for such redemption have been set aside by us for the benefit of the holders of the Shares so called for redemption, then, from and after the redemption date, no further dividends will be declared on or accumulate on such Shares, such Shares shall no longer be deemed outstanding and all rights of the holders of such Shares will terminate, except the right to transfer the Shares prior to the redemption date and the right to receive the redemption price.

In case of any redemption of only part of the Shares at the time outstanding, the Shares to be redeemed shall be selected either *pro rata* or in such other manner as we may determine to be fair and equitable.

### **Redemption Following Certain Corporate Events**

At any time prior to January 19, 2017, if we submit to the holders of our common shares a proposal for an amalgamation, consolidation, merger, arrangement, de-registration or statutory share exchange or if we submit any proposal for any other matter that requires, as a result of a change in Bermuda law (whether by enactment or official interpretation) after the date of this offering memorandum, for its validation or effectuation an affirmative vote of the holders of the Shares at the time outstanding, whether voting as a separate series or together with any other series or class of preference shares as a single class, we have the option upon not less than 30 nor more than 90 days’ prior written notice to redeem the outstanding Shares in whole for cash at a redemption price per Share (the “Make Whole Redemption Price”) equal to the greater of: (1) \$1,000 per Share and (2) the sum of the present value of \$1,000 per Share and the present value of all undeclared dividends for the dividend periods from the redemption date to and including the January 19, 2017 dividend payment date (excluding any dividend accrued from the immediately preceding dividend payment date to (but excluding) the relevant redemption date), in each case, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as calculated by the Determination Agent, plus 50 basis points, and in the case of both (1) and (2) plus declared and unpaid dividends, if any, to the date of redemption, plus an amount equal to the accrued but unpaid dividend on that Share in respect of the period from (and including) the dividend payment date last preceding the relevant redemption date to (but excluding) such redemption date.

As used in this description:

“Comparable Treasury Issue” means the United States Treasury security selected by the Determination Agent as having a maturity comparable to the term remaining to the dividend payment date on January 19, 2017 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate perpetual preferred stock having similar terms as the Shares with respect to the payment

of dividends and distributions of assets upon liquidation, dissolution or winding-up of the issuer of such preferred stock.

“Comparable Treasury Price” means, with respect to any redemption date for the Shares, (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated “Composite 5:00 p.m. Quotations for U.S. Government Notes” or (2) if such release (or any successor release) is not published or does not contain such prices on such business day, the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Determination Agent obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

“Determination Agent” means an independent investment banking institution of national standing appointed by us, acting as determination agent.

“Reference Treasury Dealer” means J. P. Morgan Securities Inc., Lehman Brothers Inc. and three other primary US government securities dealers (each a “Primary Treasury Dealer”), as specified by us; provided that if any Primary Treasury Dealer as specified by us ceases to be a Primary Treasury Dealer, we will substitute for such Primary Treasury Dealer another Primary Treasury Dealer and if we fail to select a substitute within a reasonable period of time, then the substitute will be a Primary Treasury Dealer selected by the Determination Agent after consultation with us.

“Reference Treasury Dealer Quotations” means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Determination Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to the Determination Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

“Treasury Rate” means the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the third business day preceding the redemption date.

### **Regulatory Event Redemption**

We will have the option to redeem for cash the Shares at any time prior to January 19, 2017 in whole or from time to time in part, upon not less than 30 days nor more than 90 days prior written notice in accordance with the procedures described under “— Redemption” above, at a redemption price equal to the Make Whole Redemption Price, if there is a “Regulatory Event” which cannot be avoided by the use of any reasonable measures available to us or any successor corporation.

A “Regulatory Event” is deemed to have occurred if, as a result of any change to applicable rules, regulations, policies or guidelines after the date of this offering memorandum, the Shares would not be capable of counting as cover for any minimum capital resources requirement of any regulator having jurisdiction over Catlin Bermuda or the Catlin Group on a solo or consolidated basis.

### **Tax Redemption**

We will have the option to redeem for cash the Shares at any time prior to January 19, 2017 in whole or from time to time in part, upon not less than 30 days nor more than 90 days prior written notice in accordance with the procedures described under “— Redemption” above, at a redemption price of \$1,000 per Share plus declared and unpaid dividends, if any, to the date of redemption, without interest on such unpaid dividends, plus an amount equal to the accrued but unpaid dividend on that Share in respect of the period from (and including) the dividend payment date last preceding the relevant redemption date to (but excluding) such redemption date, if there is a “Change In Tax Law” that would require us or any successor corporation to pay any additional amounts as dividends (as described under “— Payment of Additional Amounts”) with respect to the Shares and

the payment of those additional amounts cannot be avoided by the use of any reasonable measures available to us or any successor corporation.

A “Change In Tax Law” that would trigger the provisions of the preceding paragraph would be (a) a change in or amendment to laws, regulations or rulings of any taxing jurisdiction or political subdivision thereof or taxing authority thereof or therein, (b) a change in the official application or interpretation of those laws, regulations or rulings or (c) any execution of or amendment to any treaty affecting taxation to which any jurisdiction or political subdivision thereof or taxing authority thereof or therein is party after the date of this offering memorandum.

In addition, we will have the option to redeem for cash any or all Shares at any time prior to January 19, 2017 in whole or from time to time in part, upon not less than 30 days nor more than 90 days prior written notice in accordance with the procedures set forth under “— Redemption” above, at a redemption price of \$1,000 per Share plus declared and unpaid dividends, if any, to the date of redemption, without interest on such unpaid dividends, plus an amount equal to the accrued but unpaid dividend on that Share in respect of the period from (and including) the dividend payment date last preceding the relevant redemption date to (but excluding) such redemption date, if the entity formed by a consolidation, merger, arrangement, de-registration, or amalgamation or statutory share exchange involving us or the entity to which we convey, transfer or lease substantially all of the share of capital stock or our property or business or assets is required to pay additional amounts in respect of any tax, assessment or governmental charge imposed on any holder of Shares as a result of a Change In Tax Law that occurred after the date of the consolidation, merger, arrangement, de-registration, amalgamation, conveyance, statutory share exchange transfer or lease and the payment of those additional amounts cannot be avoided by the use of any reasonable measures available to us or any successor corporation.

### **Voting Rights**

Except as provided below, and as required by the Companies Act, the holders of the Shares will have no voting rights.

Whenever dividends payable on Shares have not been declared by the board of directors or a duly authorized committee of the board and paid for full dividend periods, whether or not consecutive, the duration of which in aggregate corresponds to 18 months or more, on the Shares or any class or series of Parity Stock then issued and outstanding, the holders of the Shares, together with the holders of each such class or series of Parity Stock, will have the right, voting together as a single class regardless of class or series, to elect two additional directors to our board of directors. We will use all reasonable efforts to effectuate the election or appointment of these two directors.

Thereafter, whenever dividends on the Shares and the Parity Stock then issued and outstanding have been paid in full, or declared and sufficient funds have been set aside, for consecutive dividend periods the duration of which in aggregate corresponds to 12 months or more, the right of holders of the Shares and the Parity Stock to be represented by directors will cease (but subject always to the same provision for the vesting of such rights in the case of any future suspension of payments in an amount equivalent to dividends for full dividend periods, whether or not consecutive, the duration of which in aggregate corresponds to 18 months or more), and the terms of office of the additional directors elected to the board of directors will terminate.

At any time when such special voting power has vested in the holders of the Shares and the Parity Stock as described in the preceding paragraph, such right may be exercised initially either at a special meeting of the holders of the Shares and Parity Stock or at any annual general meeting of shareholders, and thereafter at annual general meetings of shareholders. At any time when such special right has vested, we will, upon the written request of the holders of record of at least 10% of the Shares and the Parity Stock then issued and outstanding addressed to our secretary, call a special general meeting of the holders of the Shares and Parity Stock for the purpose of electing directors. Such meeting will be held at the earliest practicable date in such place as may be designated pursuant to our bye-laws (or if there be no designation, at our principal office in Bermuda). If such meeting is not called by us within 20 days after our secretary has been personally served with such request, or within 60 days after mailing the same by registered or certified mail addressed to our secretary at our principal office, then the holders of record of at least 10% of the Shares and the Parity Stock then outstanding may designate in writing one of their number to call such meeting at our expense, and such meeting may be called by

such person so designated upon the notice required for annual general meetings of shareholders and will be held in Bermuda, unless we otherwise designate. Any holder of the Shares and the Parity Stock will have access to our register of members for the purpose of causing meetings of shareholders to be called pursuant to these provisions. Notwithstanding the foregoing, no such special meeting will be called during the period within 90 days immediately preceding the date fixed for the next annual general meeting of shareholders.

At any annual or special general meeting at which the holders of the Shares and the Parity Stock have the special right to elect directors as described above, the presence, in person or by proxy, of the holders of 50% of the Shares and the Parity Stock will be required to constitute a quorum for the election of any director by the holders of the Shares and the Parity Stock, voting as a class. At any such meeting or adjournment thereof, the absence of a quorum of the holders of the Shares and the Parity Stock will not prevent the election of directors other than those to be elected by the Shares and the Parity Stock, voting as a class, and the absence of a quorum for the election of such other directors will not prevent the election of the directors to be elected by the Shares and the Parity Stock, voting as a class.

During any period in which the holders of the Shares and the Parity Stock have the right to vote as a class for directors as described above, any vacancies in our board of directors resulting from any director elected by the Shares and the Parity Stock no longer serving in such capacity for any reason will be filled by our board of directors pursuant to our bye-laws. During such period, any directors so appointed by our board of directors will continue in office until the earlier of (1) the next succeeding annual general meeting and (2) the termination of the right of the holders of the Shares and the Parity Stock to vote as a class for directors.

Without the written consent of the holders of at least 75% of the Shares at the time issued and outstanding or the sanction of a resolution passed by a majority of the votes cast at a separate meeting of the holders of the Shares, we may not take any action that would vary the rights attached to the Shares or effect any amalgamation that would vary the rights of the Shares. Notwithstanding the foregoing, the issuance of any shares that are senior to, in parity with or junior to the Shares with respect to payment of dividends and distribution of assets upon our liquidation, dissolution or winding-up will not be deemed a variation of the rights of the Shares. Holders of the Shares are not entitled to vote on any sale of all or substantially all of the assets of Catlin Bermuda.

On any item on which the holders of the Shares are entitled to vote, such holders will be entitled to one vote for each Share held, except that when any class or series of the Parity Stock shall have the right to vote with the Shares as a single class on any matter, then the Shares and such class or series of the Parity Stock shall have with respect to such matters one vote per \$1,000 of stated liquidation preference.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all issued and outstanding Shares shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been set aside by us for the benefit of the holders of Shares to effect such redemption.

### **Conversion**

The Shares are not convertible into or exchangeable for any other securities or property of Catlin Bermuda.

### **Governing Law**

The creation and issue of the Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Bermuda.

### **Shares Will Not Be Listed**

The Shares will not be listed on any securities exchange.

### **Transfer Agent**

The transfer agent for the Shares is The Bank of New York, whose principal executive office is located at One Canada Square, London E14 5AL, United Kingdom, Attention: Corporate Trust Services.

## **Book-Entry; Delivery and Form**

The Shares will be represented by one or more global securities that will be deposited with and registered in the name of DTC or its nominee. This means that we will not issue certificates to you for the Shares except in limited circumstances. The global securities will be issued to DTC, the depository for the Shares, who will keep a computerized record of its participants whose clients have purchased the Shares. Each participant will then keep a record of its clients. Unless exchanged in whole or in part for a certificated security, a global security may not be transferred. However, DTC, its nominees, and their successors may transfer a global security as a whole to one another. Beneficial interests in the global securities will be shown on, and transfers of the global securities will be made only through, records maintained by DTC and its participants. The Shares offered in reliance on Rule 144A will be represented by one or more restricted global securities (the “DTC Restricted Global Shares”) and the Shares offered outside the United States in reliance on Regulation S under the Securities Act will be represented by one or more unrestricted global securities (the “DTC Unrestricted Global Shares”).

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the US Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered under the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). DTC holds securities that its participants (direct participants) deposit with DTC. DTC also records the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for direct participants’ accounts. This eliminates the need to exchange certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Neither we nor the underwriters take any responsibility for these operations or procedures, and you are urged to contact DTC or its participants directly to discuss these matters.

DTC’s book-entry system is also used by other organizations such as securities brokers and dealers, banks and trust companies that work through a direct participant. The rules that apply to DTC and its participants are on file with the SEC.

DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc.

When you purchase Shares through the DTC system, the purchases must be made by or through a direct participant, who will receive credit for the Shares on DTC’s records. Since you actually own the Shares, you are the beneficial owner and your ownership interest will only be recorded in the direct (or indirect) participants’ records. DTC has no knowledge of your individual ownership of the Shares. DTC’s records only show the identity of the direct participants and the amount of the Shares held by or through them. You will not receive a written confirmation of your purchase or sale or any periodic account statement directly from DTC. You will receive these from your direct (or indirect) participant. Thus, the direct (or indirect) participants are responsible for keeping accurate account of the holdings of their customers like you.

We will wire dividend payments to DTC’s nominee and we will treat DTC’s nominee as the owner of the global securities for all purposes. Accordingly, we will have no direct responsibility or liability to pay amounts due on the global securities to you or any other beneficial owners in the global securities.

Any redemption notices will be sent by us directly to DTC, who will in turn inform the direct participants, who will then contact you as a beneficial owner.

It is DTC’s current practice, upon receipt of any payment of dividends or liquidation amounts, to credit direct participants’ accounts on the payment date based on their holdings of beneficial interests in the global securities as shown on DTC’s records. In addition, it is DTC’s current practice to assign any consenting or voting rights to direct participants whose accounts are credited with preferred securities on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interests in the global securities, and voting by participants, will be based on the customary practices between the participants and owners of beneficial interests, as is the case with the Shares held for the account of customers registered in a “street name”. However, payments will be the responsibility of the participants and not of DTC or us.

Shares represented by global securities will be exchangeable for certificated securities with the same terms in authorized denominations only if:

- DTC is unwilling or unable to continue as depository or if DTC ceases to be a clearing agency registered under applicable law and a successor depository is not appointed by us within 90 days; or
- we determine not to require all of the Shares to be represented by global securities.

If the book-entry-only system is discontinued, the transfer agent will keep the registration books for the Shares at its corporate office.

#### **Other Provisions Regarding Transfers**

Interests in the DTC Restricted Global Shares may be transferred to a person whose interest is subsequently represented by an interest in the DTC Unrestricted Global Shares only upon receipt by the dividend disbursing agent of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that, among other things, such transfer is being made in accordance with Regulation S under the Securities Act. Interests in the DTC Unrestricted Global Shares may be transferred to a person whose interest is subsequently represented by an interest in the DTC Restricted Global Shares only upon receipt by the dividend disbursing agent of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that, among other things, such transfer is being made in accordance with Rule 144A. Any interest in one of the global Shares that is transferred to a person whose interest in such global Share is subsequently represented by an interest in the other global Share will, upon transfer, cease to be an interest in the first global Share and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to such other global Share for so long as it remains such an interest.

## TAXATION

### United States Taxation

The following is a general summary of certain US federal income tax considerations relating to the purchase, ownership and disposition of the Shares by US Holders (as defined below) that purchase Shares pursuant to the offering and hold the Shares as capital assets. This summary is based on the US Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations promulgated thereunder, administrative and judicial interpretations thereof and the income tax treaty between the United States of America and Bermuda (the “Bermuda Treaty”), all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This summary is for general information only and does not address all of the tax considerations that may be relevant to specific US Holders in light of their particular circumstances or to US Holders subject to special treatment under US federal income tax law (such as banks, insurance companies, tax-exempt entities, retirement plans, regulated investment companies, dealers in securities, brokers, real estate investment trusts, certain former citizens or residents of the United States, persons who have acquired the Shares as part of a straddle, hedge, conversion transaction or other integrated investment, persons that have a “functional currency” other than the US dollar, persons that own (or are deemed to own) 10% or more (by voting power) of our stock or persons that generally mark their securities to market for US federal income tax purposes). This summary does not address any US state or local or non-US tax considerations or any US federal estate, gift or alternative minimum tax considerations.

As used in this summary, the term “US Holder” means a beneficial owner of the Shares that is, for US federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia, (iii) an estate the income of which is subject to US federal income tax regardless of its source or (iv) a trust with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more US persons have the authority to control all of its substantial decisions, or an electing trust that was in existence on August 19, 1996 and was treated a domestic trust on that date.

If an entity treated as a partnership for US federal income tax purposes holds the Shares, the tax treatment of such partnership and each partner thereof will generally depend upon the status and activities of the partnership and the partner. We urge a holder that is treated as a partnership for US federal income tax purposes to consult its own tax adviser regarding the US federal income tax considerations applicable to it and its partners of the purchase, ownership and disposition of the Shares.

EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO IT RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SHARES, INCLUDING THE APPLICABILITY OF US FEDERAL, STATE AND LOCAL TAX LAWS AND NON-US TAX LAWS.

EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF US FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER US FEDERAL TAX LAW; (B) ANY SUCH DISCUSSION IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

### *Taxation of Catlin Group Limited*

Non-US members of the Catlin Group will be subject to US federal income tax only to the extent that such members derive US source income that is subject to US withholding tax or income that is effectively connected with the conduct of a trade or business within the US. Although Catlin Group Limited is a holding company and does not directly conduct any significant business operations, non-US subsidiaries of Catlin Group Limited do provide coverage of US risks. Catlin Bermuda believes that, except as described below with respect to Catlin Syndicate Limited and Catlin UK, the income of the non-US members of the Catlin Group should not be treated

as effectively connected with a US trade or business and expects that Catlin Group Limited will conduct its operations, and will cause its non-US subsidiaries other than Catlin Syndicate Limited and Catlin UK to conduct their operations, in a manner that will not cause such income to become treated as effectively connected with a US trade or business. However, because there is no definitive identification of activities which constitute being engaged in a trade or business in the United States for US federal income tax purposes, there can be no assurance that the Internal Revenue Service (“IRS”) will not contend, perhaps successfully, that one or more non-US members of the Catlin Group is engaged in a trade or business in the United States. A non-US corporation deemed to be so engaged would be subject to US income tax, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business, unless the corporation is entitled to relief under an applicable tax treaty.

The Code requires that non-US insurance companies carrying on an insurance business within the United States have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of US risk insured or reinsured by such companies. Thus, if a non-US subsidiary of Catlin Group Limited is treated as doing business in the United States, a significant portion of the investment income of the non-US subsidiary may be subject to US income tax.

Under an agreement between the IRS and Lloyd’s, Catlin Syndicate Limited is deemed to conduct business in the United States through a permanent establishment. Catlin UK also conducts business in the United States through a permanent establishment. Although there can be no assurance, Catlin believes that Catlin Syndicate Limited and Catlin UK should be entitled to the benefits of the UK-US Treaty. As a result, each of Catlin Syndicate Limited and Catlin UK should only be liable for US federal income tax and branch profits tax (at a reduced rate) on income that is attributable to its permanent establishment.

A US excise tax equal to 4% for directly written casualty insurance premiums and 1% for reinsurance premiums will be imposed on premiums paid to each non-US member of the Catlin Group if the insured or reinsured risks are related to the United States and the premiums are not treated as effectively connected with a US trade or business. In addition to the excise tax described above, any such member would be subject to US withholding tax at a 30% rate (or such lower rate as may be provided by an applicable treaty) on certain interest, dividends and other investment income from US sources.

Catlin’s US subsidiaries will be subject to US tax on their worldwide income.

### ***Taxation of Shareholders***

#### *Distributions*

Subject to the controlled foreign corporation (“CFC”) related party insurance income (“RPII”) and passive foreign investment company (“PFIC”) rules described below, a US Holder that receives a distribution in respect of the Shares generally will be required to include the distribution in gross income as a taxable dividend to the extent the distribution is paid from Catlin Bermuda’s current or accumulated earnings and profits, as determined under US federal income tax principles. A distribution in excess of Catlin Bermuda’s earnings and profits generally will first be treated as a non-taxable return of capital to the extent of the US Holder’s adjusted tax basis in the Shares, and then, to the extent the amount of such distribution exceeds such adjusted tax basis, as gain from the sale or exchange of such Shares. We have not maintained and do not plan to maintain calculations of earnings and profits for US federal income tax purposes. US Holders will not be entitled to claim the dividends received deduction for dividend income in respect of the Shares. Each US Holder should consult its own tax adviser with respect to the appropriate US federal income tax treatment of any distribution in respect of the Shares.

Under current law, dividends received by non-corporate US Holders (including individuals) for taxable years beginning on or before December 31, 2010 on shares of certain non-US corporations may be subject to US federal income tax at lower rates than other types of income if certain conditions are met. Catlin Bermuda does not expect that dividends received by non-corporate US Holders will be entitled to such reduced rates because Catlin Bermuda does not meet the applicable conditions.

### *Classification of Catlin Bermuda or its non-US subsidiaries as Controlled Foreign Corporations*

If in any taxable year US Shareholders (as defined below) own, in the aggregate, more than 50% (measured by voting power or value) of the shares of a non-US corporation (directly, indirectly, or constructively), the non-US corporation will be a CFC. A “US Shareholder” is any US corporation, citizen, resident, or other US person that owns directly or indirectly through non-US persons, or is considered to own (by application of constructive ownership rules), 10% or more of the total combined voting power of all classes of stock of the non-US corporation. For purposes of taking into account insurance income, a CFC generally includes a non-US insurance company if US Shareholders own more than 25% (measured by voting power or value) of the shares of the non-US insurance company (directly, indirectly or constructively). If Catlin Bermuda or any of its non-US subsidiaries is treated as a CFC, then a portion of the undistributed income of Catlin Bermuda or the non-US subsidiary generally would be includible in the taxable income of US Shareholders. Each Investor should consult its tax adviser regarding the applicable CFC rules if it believes it may become a US Shareholder of Catlin Bermuda or any of its non-US subsidiaries.

### *The RPII CFC provisions*

“RPII” is any insurance income attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a “RPII shareholder” or a “related person” with respect to such RPII shareholder. For this purpose, the term “RPII shareholder” means any US person who owns (directly or indirectly through non-US entities) any shares of the non-US insurance company and “related person” means someone who controls or is controlled by the RPII shareholder or someone who is controlled by the same person or persons which control the RPII shareholder. “Control” means the ownership of more than 50% of either the voting power or value of the shares applying certain constructive ownership principles. Catlin Bermuda and any non-US insurance company subsidiary (“Non-US Insurance Subsidiary”) will be treated as CFCs under the RPII provisions if in any taxable year RPII shareholders are treated as owning (directly, indirectly or constructively) 25% or more of the shares of Catlin Bermuda or the Non-US Insurance Subsidiary, as applicable, by vote or value.

### *RPII Exceptions and Inclusions*

US Holders will not be subject to US federal income tax on undistributed income of Catlin Bermuda or a Non-US Insurance Subsidiary under the RPII rules if:

- (a) direct and indirect insureds and persons related to such insureds, whether or not US persons, are treated as owning at all times during the taxable year (directly or indirectly through non-US entities) less than 20% of the voting power and less than 20% of the value of the stock of Catlin Bermuda or the Non-US Insurance Subsidiary, as applicable (the “20% Ownership Exception”); or
- (b) RPII, determined on a gross basis, is less than 20% of the gross insurance income for the taxable year of Catlin Bermuda or the Non-US Insurance Subsidiary, as applicable (the “20% Gross Income Exception”).

There can be no assurance that the 20% Ownership Exception or the 20% Gross Income Exception will apply in 2007 or in any future year.

If none of these exceptions applies, each RPII Shareholder in Catlin Bermuda or the Non-US Insurance Subsidiary, as applicable, on the last day of its taxable year generally will be required to include in its gross income for US federal income tax purposes its share of the RPII for the portion of the taxable year during which Catlin Bermuda (or the Non-US Insurance Subsidiary, as applicable) was a CFC under the RPII provisions, determined as if all such RPII were distributed proportionately only to the RPII shareholders at that date, but limited by each such RPII shareholder’s share of the current-year earnings and profits of Catlin Bermuda or the Non-US Insurance Subsidiary, as applicable, as reduced by the RPII shareholder’s share, if any, of certain prior-year deficits in earnings and profits.

A RPII shareholder’s tax basis in its Shares will be increased by the amount of any RPII that the shareholder includes in income. The RPII shareholder may exclude from income the amount of any distributions by Catlin

Bermuda out of previously taxed RPII income. The RPII shareholder's tax basis in its Shares will be reduced by the amount of such distributions that are excluded from income.

#### *Determination of RPII*

In order to determine how much RPII Catlin Bermuda or any Non-US Insurance Subsidiary has earned in each taxable year, Catlin Bermuda and the Non-US Insurance Subsidiaries may obtain and rely upon information from their respective insureds and reinsureds to determine whether any of the insureds, reinsureds or persons related thereto own (directly or indirectly through non-US entities) shares of Catlin Bermuda and are US Persons. However, Catlin Bermuda and the Non-US Insurance Subsidiaries do not presently intend to request such information from their insureds and reinsureds. Moreover, even if Catlin Bermuda and the Non-US Insurance Subsidiaries do request such information, Catlin Bermuda may not be able to determine whether any of the underlying direct or indirect insureds to which Catlin Bermuda or its Non-US Insurance Subsidiaries provide insurance or reinsurance are shareholders or related persons to such shareholders. Consequently, Catlin Bermuda may not be able to determine accurately the gross amount of RPII earned by it or any Non-US Insurance Subsidiaries in a given taxable year. For any year in which Catlin Bermuda determines that it or any Non-US Insurance Subsidiary's gross RPII is 20% or more of such corporation's gross insurance income for the year and such corporation does not meet the 20% Ownership Exception, Catlin Bermuda may request information from its shareholders as to whether beneficial owners of Shares at the end of the year are US persons so that the RPII may be determined and apportioned among such persons.

The amount of RPII includable in the income of a RPII shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses, and generally should not exceed the amount of any distributions during such year to the RPII shareholder in respect of the Shares.

#### *Uncertainty as to Application of RPII*

Regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any such changes, as well as any interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. The RPII provisions include the grant of authority to the US Treasury Department to prescribe "such regulations as may be necessary to carry out the purpose of this subsection including... regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise." Accordingly, the meaning of the RPII provisions and the application thereof to Catlin Bermuda and the Non-US Insurance Subsidiaries is uncertain. In addition, it is not certain that the amount of RPII or the amounts of the RPII inclusions for any particular RPII shareholder, if any, will not be subject to adjustment based upon subsequent IRS examination. Each prospective investor considering an investment in Shares should consult its tax adviser as to the effects of these uncertainties.

#### *Tax-exempt Shareholders*

Tax-exempt entities will be required to treat certain subpart F insurance income, including RPII, that is includible in income by the tax-exempt entity, as unrelated business taxable income. Each prospective investor that is a tax exempt entity is urged to consult its tax adviser as to the potential impact of the unrelated business taxable income provisions of the Code. A tax-exempt organization that is treated as a US Shareholder or a RPII shareholder also must file IRS Form 5471 in the circumstances described below under Information Reporting.

#### *Dispositions of Shares*

Subject to the discussions below relating to the potential application of the Code section 1248 and PFIC rules, a US Holder generally should recognize capital gain or loss for US federal income tax purposes on the sale, exchange or other disposition of Shares. Such capital gain or loss will be long-term capital gain (taxable at a reduced rate for non-corporate US Holders, including individuals) or loss if, on the date of sale, exchange or other disposition, the Shares were held by such US Holder for more than one year. The deductibility of capital

losses is subject to limitations. Moreover, gain or loss, if any, from the sale, exchange or other disposition generally will be a US-source gain or loss for foreign tax credit limitation purposes.

Code section 1248 generally provides that if a US person sells or exchanges stock in a non-US corporation and such person owned, directly, indirectly through certain non-US entities or constructively, 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of the CFC's earnings and profits (determined under US federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments, including adjustments to reflect earnings and profits of certain subsidiaries that are or have been treated as CFC's). We have not maintained and do not plan to maintain calculations of earnings and profits for US federal income tax purposes. Each US Holder should consult its own tax adviser with respect to the appropriate US federal income tax treatment of the sale or exchange of the Shares.

Code section 1248 also applies to the sale or exchange of shares in a non-US corporation if the non-US corporation would be treated as a CFC for RPII purposes regardless of whether the shareholder is a 10% US Shareholder or the 20% Gross Income or the 20% Ownership Exception applies. As a result, if Catlin Bermuda is treated as a CFC for RPII purposes, Code section 1248 will apply to the sale or exchange of the Shares by a US Holder. The amount of gain from the sale or exchange by a US Holder of the Shares that is treated as a dividend under Section 1248 should be limited to the amount of declared and unpaid dividends on such US Holder's Shares.

If Catlin Bermuda is treated as a CFC for RPII purposes, a US Holder generally will be required to report a disposition of Shares by attaching IRS Form 5471 to the US federal income tax or information return that it would normally file for the taxable year in which the disposition occurs.

*Passive foreign investment company*

A non-US corporation generally will be classified as a PFIC for US federal income tax purposes in any taxable year in which either:

(a) at least 75% of its gross income is "passive income"; or

(b) on average at least 50% of the gross value of its assets is attributable to assets that produce "passive income" or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. In determining whether it is a PFIC, a non-US corporation is required to take into account a pro rata portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value). The PFIC rules provide that income "derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business" is not treated as passive income. Under this exception, income derived by a bona fide insurance company generally is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. The Directors expect that, for the purposes of the PFIC rules, Catlin Bermuda and each of its Non-US Insurance Subsidiaries will be predominantly engaged in an insurance business.

Catlin Bermuda does not expect to become a PFIC for US federal income tax purposes in 2007. However, because this determination is fundamentally factual in nature, generally cannot be determined until the close of the taxable year in question, Catlin Bermuda can provide no assurance that it will not be a PFIC for 2007 or for any subsequent taxable year. If Catlin Bermuda is classified as a PFIC in any year that a US Holder is a shareholder, Catlin Bermuda generally will continue to be treated as a PFIC for that US Holder in all succeeding years, regardless of whether Catlin Bermuda continues to meet the income or asset test described above. As discussed below, if Catlin Bermuda is classified as a PFIC in any year, special, possibly adverse, consequences would result for US Holders of Shares.

If Catlin Bermuda is a PFIC in any year during which a US Holder owns Shares, such US Holder generally will be subject to additional US federal income taxes and interest charges on any “excess distributions” received from Catlin Bermuda and any gain realized from the sale or other disposition of Shares (whether or not Catlin Bermuda continues to be a PFIC). A US Holder receives an excess distribution to the extent that distributions on the Shares during a taxable year exceed 125% of the average amount received during the three preceding taxable years (or, if shorter, the US Holder’s holding period). Gain realized from the sale or other disposition of the Shares is also treated as an excess distribution. To compute the tax on the excess distributions or any gain, (a) the excess distribution or the gain is allocated ratably over the US Holder’s holding period, (b) the amount allocated to the current taxable year and any year before Catlin Bermuda became a PFIC is taxed as ordinary income in the current year, and (c) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year. The interest charge is equal to the applicable rate imposed on underpayments of US federal income tax for such period.

A person who acquires Shares from a deceased US Holder generally will be denied the step-up of the tax basis for US federal income tax purposes to fair market value at the date of such US Holder’s death, which would otherwise be available with respect to a decedent dying in any year other than 2010. Instead, such person will have a tax basis equal to the lower of such fair market value or such US Holder’s tax basis.

The foregoing results may be eliminated if a US Holder is eligible for and timely makes a valid “QEF election” (in which case the US Holder would be required to include in income on a current basis its pro rata share of Catlin Bermuda’s ordinary income and net capital gains). However, in order for a US Holder to be able to make the QEF election, Catlin Bermuda would have to provide such US Holder with certain information. Catlin Bermuda does not expect to provide the required information.

Each US Holder that holds a direct or indirect interest in a PFIC must make an annual return on IRS Form 8621 reporting distributions received and gains realized with respect to such PFIC.

If Catlin Bermuda is a PFIC and a CFC in any year, Catlin Bermuda generally would not be treated as a PFIC with respect to any US Shareholder in Catlin Bermuda.

**All potential US Holders are urged to consult their own tax advisers regarding whether an investment in Shares will be treated as an investment in PFIC stock and the consequences of an investment in a PFIC.**

#### *Foreign tax credit*

If 50% or more (measured by voting power or value) of the shares of Catlin Bermuda are owned (directly or indirectly) by US persons, only a portion of the current income inclusions, if any, under the CFC, RPII and PFIC rules and of dividends paid by the Catlin Group (including any gain from the sale of Shares that is treated as a dividend under section 1248 of the Code) will be treated as foreign source income for purposes of computing a shareholder’s US foreign tax credit limitations. It is also likely that substantially all of the undistributed income of Catlin Bermuda includible under the CFC rules in the taxable income of US Shareholders that is foreign source income would constitute either “passive” or “financial services” income for foreign tax credit limitation purposes (or, for tax years beginning after December 31, 2006, as “passive category income”, or, in the case of some US Holders, as “general category income”). Thus, it may not be possible for shareholders to utilize excess foreign tax credits to reduce US tax on such income.

### ***Information reporting and backup withholding***

Under certain circumstances, US persons owning stock in a non-US corporation are required to file IRS Form 5471 with their US federal income tax returns. Generally, information reporting on IRS Form 5471 is required by:

- (a) a person who is treated as a RPII shareholder;
- (b) a US Shareholder of a non-US corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the non-US corporation, and who owned the stock on the last day of that year; and
- (c) under certain circumstances, a US person who acquires stock in a non-US corporation and as a result thereof owns 10% or more of the voting power or value of such non-US corporation, whether or not such non-US corporation is a CFC.

Information returns may be required to be filed with the IRS in connection with distributions on the Shares and the proceeds from a sale or other disposition of the Shares unless the holder of the Shares establishes an exemption from the information reporting rules. A holder of Shares that does not establish such an exemption may be subject to US backup withholding tax on these payments if the holder is not a corporation or a non-US person or fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a US person will be allowed as a credit against the US person's US federal income tax liability and may entitle the US person to a refund, provided that the required information is furnished to the IRS.

### ***Reportable transactions***

Under United States Treasury regulations, US Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their US federal income tax returns a disclosure statement on Form 8886. US Holders should consult their own tax advisers as to the possible obligation to file Form 8886 with respect to the sale, exchange or other disposition of any non-US currency received as a dividend from the Shares or as proceeds from the sale of the Shares.

### **Bermuda Taxation**

The following is a summary of the Issuer's understanding of the current Bermudian law and practice relating to the taxation treatment of the Shares as at the date of this offering memorandum and may be subject to change, possibly with retroactive effect. It relates only to the position of persons who are the absolute beneficial owners of the Shares. This summary deals only with the question of Bermudian tax payable by the Issuer or the shareholders, other than shareholders ordinarily resident. Shareholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than Bermuda should consult their professional advisers.

Under current Bermuda law, there is no income, corporate or profits tax or withholding tax, capital gains tax or capital transfer tax, estate or inheritance tax payable by us or our shareholders, other than shareholders ordinarily resident in Bermuda, if any. Catlin Bermuda has obtained from the Minister of Finance under The Exempted Undertaking Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts legislation imposing tax computed on profits, income, any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance, then the imposition of any such tax shall not be applicable to Catlin Bermuda or to any of its operations or its shares, debentures or other obligations, until March 28, 2016. Catlin Bermuda could be subject to taxes in Bermuda after that date. This assurance is subject to the proviso that it is not to be construed so as to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda or to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 or otherwise payable in relation to any property leased to Catlin Bermuda. Catlin Bermuda pays annual Bermuda government fees and pays annual insurance license fees. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

## **UK Taxation**

The following is a summary of certain aspects of UK taxation relating to the purchase, ownership and disposition of the Shares and is included as a general guide only. It is based on current UK legislation and what is understood to be current HM Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect. It applies only to persons who are resident or ordinarily resident in the United Kingdom for UK tax purposes and who hold their Shares beneficially and as an investment. The information is general in character, is not exhaustive and may not apply to certain classes of shareholders (including, but not limited to, dealers in securities).

PROSPECTIVE PURCHASERS OF SHARES ARE URGED WHEN CONSIDERING WHETHER OR NOT TO PURCHASE THE SHARES TO CONSULT THEIR OWN TAX ADVISORS REGARDING THEIR OWN PARTICULAR CIRCUMSTANCES AND THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO THEM.

PROSPECTIVE PURCHASERS WHO ARE IN ANY DOUBT AS TO THEIR TAX POSITION OR WHO MAY BE SUBJECT TO TAX IN A JURISDICTION OTHER THAN THE UK SHOULD SEEK INDEPENDENT ADVICE.

### ***Taxation of Shareholders***

#### *Dividends*

Dividends paid by Catlin Bermuda to UK resident shareholders will, in general, be subject to UK tax. Individual shareholders who are subject to tax at the higher rate are currently subject to tax on dividends at the rate of 32.5%. UK resident individuals who receive dividends on the Shares will not be treated as receiving a dividend from a UK company and thus will not be entitled to a tax credit in respect of that dividend.

Shareholders who are UK resident companies will be subject to tax on dividends paid by Catlin Bermuda at the rate at which they pay corporation tax. In general, no credit will be available for any tax payable by Catlin Bermuda on its profits out of which the dividends are paid.

#### *Taxation of chargeable gains*

Subject to the paragraph below entitled “Loan relationship rules” in respect of UK resident corporate shareholders, a disposal of Shares by a shareholder who is resident or ordinarily resident in the United Kingdom for tax purposes may, depending on that shareholder’s circumstances, give rise to a chargeable gain or allowable loss for the purposes of taxation of chargeable gains. Individuals who dispose of Shares while they are temporarily non-resident in the United Kingdom for tax purposes may still be liable to UK tax on any capital gain realized. On disposal by an individual shareholder Shares may attract taper relief, which reduces the amount of chargeable gain depending on how long the shares have been held. In addition, a UK shareholder disposing of the Shares is eligible for an annual exemption from capital gains realized as a result of such a disposal, which for the 2006-2007 tax year is £8,800.

Shareholders who are bodies corporate resident in the United Kingdom for tax purposes will not qualify for taper relief but may instead benefit from indexation allowance on the disposal of Shares which, in general terms, increases the base cost of the Shares for UK corporation tax purposes in line with the rise in the retail price index during the period of ownership.

An individual shareholder who is neither resident nor ordinarily resident in the United Kingdom for tax purposes and who does not return to the United Kingdom within five years of disposal will not normally be liable for UK taxation on chargeable gains realized on the disposal of Shares unless, at the time of disposal, such shareholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency and such Shares are or have been used, held or acquired for the purposes of such trade or branch or agency.

*Loan relationship rules*

The effect of Finance Act 1996 is that UK resident corporate shareholders' Shares may, in certain circumstances, be treated for corporation tax purposes as loan relationships and as such are taxable on a fair value basis of accounting. The effect of this would be that profits and losses based on fluctuations in value would be brought into account for corporation tax purposes. These rules may apply to a UK resident corporate shareholders' Shares where the UK resident corporate shareholder (together with parties connected with it) holds more than 10% of the Shares or where its Shares are held for the purposes of circumventing section 95 of the Income and Corporation Taxes Act 1988 or for a tax avoidance purpose.

***Stamp Duty and Stamp Duty Reserve Tax ("SDRT")***

*Issue of Shares*

No stamp duty or SDRT will arise on the issue of Shares.

*Transfer*

For so long as Catlin Bermuda's share register is kept outside the United Kingdom, an agreement to transfer Shares will not be subject to SDRT and a conveyance or transfer on sale of Shares will not be subject to stamp duty provided that the instrument of transfer is not executed in the United Kingdom and does not relate to any property situated, or to any matter or thing done or to be done, in any part of the United Kingdom.

## PLAN OF DISTRIBUTION

### Underwriting

Subject to the terms and conditions of the underwriting agreement dated the date of this offering memorandum, J.P. Morgan Securities Inc. and Lehman Brothers Inc. as initial purchasers have agreed to purchase, and we have agreed to sell, the number of Shares set forth in the table below:

<u>Name</u>	<u>Number of Shares</u>
J.P. Morgan Securities Inc. ....	300,000
Lehman Brothers Inc. ....	300,000
<b>Total</b> .....	<u><u>600,000</u></u>

The underwriting agreement provides that the obligations of the initial purchasers to purchase the Shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The initial purchasers are obligated to purchase all of the Shares offered by this offering memorandum if they purchase any of such Shares.

We have agreed that, without the prior written consent of J.P. Morgan Securities Inc. and Lehman Brothers Inc., we will not, during the period ending 90 days after the Closing Date (as defined in the underwriting agreement), directly or indirectly, issue, sell, offer to sell, grant any option for the sale of or otherwise dispose of, any securities that are substantially similar to the Shares.

The Shares are a new issue with no established trading market. The Shares will not be listed on any securities exchange.

We are paying commissions to the initial purchasers in connection with this offering.

In connection with the offering, J.P. Morgan Securities Inc. and Lehman Brothers Inc. may purchase and sell Shares in the open market. These transactions may include short sales, covering transactions and stabilizing transactions. Short sales involve sales of Shares in excess of the number of Shares to be purchased by J.P. Morgan Securities Inc. and Lehman Brothers Inc. in the offering, which creates a short position. Covering transactions involve purchases of Shares in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Shares made for the purpose of preventing or retarding a decline in the market price of the Shares while the offering is in progress.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the Shares. They may also cause the price of the Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. J.P. Morgan Securities Inc. and Lehman Brothers Inc. may conduct these transactions in the over-the-counter market or otherwise. If J.P. Morgan Securities Inc. and Lehman Brothers Inc. commence any of these transactions, they may discontinue them at any time.

The initial purchasers and their affiliates have in the past performed, and may in the future perform, investment banking and advisory services for us from time to time for which they have received and would expect to receive customary fees and expenses. For example, affiliates of J.P. Morgan Securities Inc. acted as Catlin's advisor and sole bridge financing underwriter for the Wellington acquisition.

We have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make because of any of those liabilities.

## **Selling Restrictions**

### ***United States of America***

The Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Shares are being offered and sold outside of the United States in reliance on Regulation S under the Securities Act (“Regulation S”). The underwriting agreement provides that the initial purchasers may directly or through their US broker-dealer affiliates arrange for the offer and resale of Shares within the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Shares, an offer or sale of Shares within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

### ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), the initial purchasers have represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), they have not made and will not make an offer of Shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that they may, with effect from and including the Relevant Implementation Date, make an offer of Shares to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances which do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Shares to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### ***United Kingdom***

The initial purchasers have represented, warranted and agreed that:

- (1) they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by them in connection with the issue or sale of any Shares in circumstances in which section 21(1) of the FSMA does not apply to Catlin Bermuda; and
- (2) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the Shares in, from or otherwise involving the United Kingdom.

## ***Bermuda***

The initial purchasers have represented and agreed that:

- (1) they have complied with the provisions of the Investment Business Act 2003; and
- (2) they have only offered the Shares in compliance with the Exchange Control Act 1972, including the Exchange Control Regulations 1973 (the “Exchange Control Act”), and the Notice to the Public issued by the Bermuda Monetary Authority as of June 2005 in accordance with the Exchange Control Act.

## **Transfer Restrictions**

### ***Rule 144A Shares***

Each purchaser of Shares within the United States pursuant to Rule 144A, by accepting delivery of this offering memorandum, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (“QIB”), (b) acquiring such Shares for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Shares has been advised, that the sale of such Shares to it is being made in reliance on Rule 144A.

(2) It understands that such Shares have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that such Shares, unless otherwise agreed by Catlin Bermuda in accordance with applicable law, will bear a legend to the following effect:

THIS SHARE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS SHARE.

(4) It acknowledges that Catlin Bermuda, the Registrar, the initial purchasers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

(5) It understands that the Shares offered in reliance on Rule 144A will be represented by the DTC Restricted Global Shares. Before any interest in the DTC Restricted Global Shares may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the DTC

Unrestricted Global Shares, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

**Prospective purchasers are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

***Regulation S Shares***

Each purchaser of Shares outside the United States pursuant to Regulation S and each subsequent purchaser of such Shares in resales, by accepting delivery of this offering memorandum and the Shares, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Shares are purchased will be, the beneficial owner of such Shares and (a) it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of Catlin Bermuda or a person acting on behalf of such an affiliate.

(2) It understands that such Shares have not been and will not be registered under the Securities Act and that it will not offer, sell, pledge or otherwise transfer such Shares except (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It acknowledges that Catlin Bermuda, the Registrar, the initial purchasers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

(4) It understands that the Shares offered in reliance on Regulation S will be represented by the DTC Unrestricted Global Shares. Prior to the expiration of the distribution compliance period, before any interest in the DTC Unrestricted Global Shares may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the DTC Restricted Global Shares, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

### **VALIDITY OF THE SECURITIES**

The validity of the Shares will be passed upon for us and for the initial purchasers by Appleby Spurling Hunter. Certain US law matters will be passed on for us by Debevoise & Plimpton LLP and for the initial purchasers by Linklaters.

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The consolidated financial statements of Catlin Bermuda for the years ended December 31, 2005, 2004 and 2003 (including schedules appearing therein) appearing in this offering memorandum have been audited by PricewaterhouseCoopers, independent registered public accounting firm, as set forth in their reports, included therein.

### **AVAILABLE INFORMATION**

For so long as the Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, Catlin Bermuda will, during any period in which it is neither subject to Section 13 of Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of the Shares, or to any prospective purchaser of the Shares designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

## GLOSSARY

<b>Active underwriter</b> . . . . .	The person (or persons) with principal authority to conduct underwriting on behalf of a syndicate at Lloyd's
<b>Binding authority</b> . . . . .	Authority given by an insurer or reinsurer to brokers or agents (known as "coverholders") to bind insurance or reinsurance risks on its behalf
<b>Broker</b> . . . . .	One who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered, between (1) a policy holder and a primary insurer, on behalf of the insured party, (2) a primary insurer and reinsurer, on behalf of the primary insurer or (3) a reinsurer and a retrocessionaire, on behalf of the reinsurer
<b>Capacity</b> . . . . .	In relation to a syndicate, the limit for the time being prescribed on the amount of insurance business that is able to be allocated to a particular year of account which is to be accepted by a syndicate, such limit being expressed as the maximum amount of premium income arising out of insurance business underwritten through that syndicate or in relation to a member of Lloyd's, the member's overall premium limit
<b>Capital solvency ratio</b> . . . . .	The ratio of a member's funds at Lloyd's to its OPL, determined in accordance with Lloyd's requirements
<b>Cash call</b> . . . . .	A request for funds made by a Lloyd's managing agent pursuant to the terms and conditions of the standard managing agent's agreement in the form prescribed by Lloyd's at or prior to the closure of the relevant year of account
<b>Casualty insurance or casualty reinsurance</b> . . . . .	Insurance that is primarily concerned with the losses caused by injuries to third persons (in other words, persons other than the policyholder) and the legal liability imposed on the insured resulting therefrom and reinsurance of such losses
<b>Catastrophe</b> . . . . .	A severe loss, typically involving multiple claimants. Common perils include earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability
<b>Catastrophe loss</b> . . . . .	Loss and directly identified loss adjustment expenses resulting from catastrophes
<b>Catastrophe reinsurance</b> . . . . .	A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the ceding company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event. These reinsurance contracts are typically designed to cover property insurance losses but can be written to cover other types of insurance losses such as from workers' compensation policies
<b>Cede, cedent or ceding company</b> . . . . .	When a party reinsures its liability with another, it "cedes" business and is referred to as the "cedent" or "ceding company", an alternative for reinsured
<b>Combined ratio</b> . . . . .	The aggregate of the loss ratio and the expense ratio

<b>Controller</b> .....	An individual or body corporate holding 10% or more of the shares in a company regulated by the FSA and Lloyd's
<b>Corporate member</b> .....	A member of Lloyd's which is a body corporate
<b>Council</b> .....	The Council of Lloyd's, and any person or delegate acting under its authority, including the Lloyd's Market Board and the Lloyd's Regulatory Board
<b>Coverholder</b> .....	See "Binding authority"
<b>Direct insurance</b> .....	Insurance sold by an insurer that contracts with the insured, as distinguished from reinsurance
<b>Excess of loss</b> .....	Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses over a specified currency amount or "retention"
<b>Expense ratio</b> .....	Total expenses divided by net premiums earned
<b>Facultative reinsurance</b> .....	The reinsurance of part or all of the insurance of an individual risk covered by a single policy on negotiated terms and conditions
<b>Following underwriter</b> .....	An underwriter who accedes to the terms and conditions of the risk established by a lead underwriter
<b>Funds at Lloyd's</b> .....	Funds held in trust at Lloyd's to support a member's underwriting activities
<b>Gross premiums written</b> .....	Total premiums for insurance written and reinsurance assumed during a given period
<b>Hardened market</b> .....	An insurance or reinsurance market in which premiums and terms and conditions have improved or are improving from the insurer's or reinsurer's point of view
<b>Incurred but not reported or IBNR</b> ..	Reserves for estimated losses that have been incurred by insureds and reinsureds but not yet reported to the insurer or reinsurer including unknown future developments on losses which are known to the insurer or reinsurer
<b>Lead underwriter</b> .....	The first underwriter named on an underwriting slip, with primary responsibility for negotiating the terms and conditions of the risk and adjusting and settling all claims. To "lead" is when a lead underwriter establishes the policy terms
<b>Lloyd's</b> .....	Lloyd's of London, a British insurance marketplace for underwriting syndicates which allows multiple financial backers to pool and spread risk. Lloyd's sets standards for its members and the managing underwriter for each syndicate decides which risks to accept
<b>Long tail</b> .....	A term to describe insurance business where it is known from experience that notification and settlement of claims could take many years
<b>Losses occurring basis</b> .....	Refers to an insurance policy under which losses are covered if they occur while the policy is in force, even if they are not discovered, and the claim subsequently made, until many years later
<b>Loss and loss expense reserves</b> .....	An amount set aside to provide for outstanding claims both reported and not reported, together with the associated costs of handling such claims
<b>Loss ratio</b> .....	Losses and loss expenses divided by net premiums earned

<b>Managing agent</b> .....	An underwriting agent at Lloyd's responsible for managing a syndicate and, among other things, employing the Active Underwriter
<b>Member</b> .....	A member of Lloyd's
<b>Name</b> .....	An individual underwriting member of Lloyd's
<b>Net premiums earned</b> .....	The portion of net premiums written during or prior to a given period that was actually recognized as income during such period
<b>Net premiums written</b> .....	Gross premiums written for a given period less premiums ceded to reinsurers and retrocessionaires during such period
<b>Non-proportional reinsurance</b> .....	Reinsurance under which the reinsurer's participation in a claim depends on the size of the claim, such as excess of loss
<b>Overall premium limit</b> .....	The premium limit which determines the maximum amount of business which a member of Lloyd's may underwrite, based on the level of that member's funds at Lloyd's and its RBC Ratio, in any year of account
<b>Proportional reinsurance</b> .....	A generic term describing all forms of reinsurance in which the reinsurer shares a proportional part of the original premiums and losses of the reinsured. (Also known as pro rata or participating reinsurance.) Quota share reinsurance is a form of proportional reinsurance. In proportional reinsurance the reinsurer generally pays the ceding company a ceding commission. The ceding commission generally is based on the ceding company's acquisition cost being reinsured (including commissions, premium taxes, assessments and miscellaneous administrative expenses) and also may include a profit factor
<b>Qualifying quota share or QQS</b> .....	an arrangement whereby a Lloyd's syndicate may increase its capacity through a quota share reinsurance contract made in accordance with regulations approved by the Prudential Supervision Committee of Lloyd's
<b>Quota share reinsurance</b> .....	A reinsurance agreement under which a reinsurer accepts a fixed proportion of the risk or an agreed category of risks and shares in premiums and claims in that proportion
<b>Reinstatement premiums</b> .....	The premiums charged for restoration of the reinsurance limit of a contract to its full amount after payment by the reinsurer of losses as a result of an occurrence
<b>Reinsurance</b> .....	An arrangement in which a reinsurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies. Reinsurance can provide a ceding company with several benefits, including a reduction in net liability on individual risks and catastrophe protection from large or multiple losses. Reinsurance also provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and write more business than would be possible without a concomitant increase in capital and surplus, and facilitates the maintenance of acceptable financial ratios by the ceding company. Reinsurance does not legally discharge the primary insurer from its liability with respect to its obligations to the insured

<b>Risks attaching basis</b> .....	Refers to a reinsurance policy under which cover is provided for losses arising on policies issued or renewed during a defined period and where the insurer remains liable until the expiry of such policies
<b>Retrocession</b> .....	Reinsurance of reinsurance business
<b>Softened market</b> .....	An insurance or reinsurance market in which premiums and terms and conditions have deteriorated or are deteriorating from the insurer's or reinsurer's point of view
<b>Stop loss contract</b> .....	A type of reinsurance that reinsures a defined insurance portfolio excess of an agreed loss ratio. For example, the stop loss contract might attach once the loss ratio exceeds 100%; losses in excess of that loss ratio are ceded to the stop loss reinsurer, up to an agreed limit; losses in excess of the limit would revert to the reinsured.
<b>Surplus lines</b> .....	A generic US regulatory classification referring to insurance coverage not ordinarily written by insurers fully "admitted" in various states. Surplus lines business is largely unregulated as to rate and form but insurers must be authorized to write such business in a state by the local regulator
<b>Syndicate</b> .....	A group of Names and/or corporate members underwriting insurance business at Lloyd's through the agency of a managing agent to which a particular syndicate number is assigned by or with the authority of the Council
<b>Treaty reinsurance</b> .....	The reinsurance of a specified type or category of risks defined in a reinsurance agreement (a "treaty") between a primary insurer or other reinsured and a reinsurer. Typically, in treaty reinsurance, the primary insurer or reinsured is obligated to offer and the reinsurer is obligated to accept a specified portion of all of that type or category of risks originally written by the primary insurer or reinsured
<b>Unearned premium</b> .....	The portion of premiums written that is allocable to the unexpired portion of the policy term
<b>US Government and Agency Securities</b> .....	US Government and Agency Securities are composed of bonds issued by the US Treasury and municipal securities issued by states, cities, counties and towns in the United States to fund public capital projects like roads, schools, sanitation facilities and bridges as well as operating budgets which contain an explicit guarantee by the US government as to their repayment. The fair market value of these securities fluctuates depending on market and other general economic conditions and the interest rate environment
<b>Year of account</b> .....	The year of account at Lloyd's commencing January 1 and ending December 31 in each year

[This page intentionally left blank]

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Page</u>
<b>INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) OF CATLIN BERMUDA AS AT JUNE 30, 2006 AND FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005</b>	
Consolidated financial statements as at June 30, 2006 and for the six months ended June 30, 2006 and 2005 .....	F-2
<b>ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF CATLIN BERMUDA AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003</b>	
Report of Independent Registered Public Accounting Firm .....	F-9
Consolidated balance sheets as at December 31, 2005, 2004 and 2003 .....	F-10
Consolidated statements of operations for the years ended December 31, 2005, 2004 and 2003 .....	F-11
Consolidated statements of changes in stockholder's equity and accumulated other comprehensive income for the years ended December 31, 2005, 2004 and 2003 .....	F-12
Consolidated statements of cash flows for the years ended December 31, 2005, 2004 and 2003 .....	F-13
Notes to the consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 ..	F-14

**Catlin Insurance Company Ltd.**  
**Consolidated Financial Statements**  
**For the Six Months Ended June 30, 2006 and 2005**  
**(Expressed in US Dollars)**

**Catlin Insurance Company Ltd.**  
**Consolidated Balance Sheets**  
**As at June 30, 2006 and 2005**

	2006	2005
	(US Dollars in thousands, except share amounts)	
<b>ASSETS</b>		
Investments		
Fixed maturities, available-for-sale, at fair value (amortized cost 2006 — \$807,207; 2005 — \$660,833) . . . . .	\$ 785,462	\$ 666,726
Short-term investments, at fair value . . . . .	—	35,956
Investment in associate . . . . .	2,498	2,520
Total Investments . . . . .	787,960	705,202
Cash and cash equivalents . . . . .	462,919	249,195
Accrued investment income . . . . .	19,431	15,194
Securities lending collateral . . . . .	209,137	—
Premiums and other receivables . . . . .	196,944	146,157
Reinsurance recoverable . . . . .	50,530	16,101
Ceded unearned premium . . . . .	26,515	31,877
Intercompany receivables . . . . .	104,323	100,298
Funds withheld . . . . .	1,173,841	756,172
Property and equipment . . . . .	4,152	4,161
Deferred acquisition costs . . . . .	60,453	52,802
Intangible assets . . . . .	7,220	3,583
Deferred tax asset . . . . .	2,490	5
Other assets . . . . .	5,640	1,978
Total assets . . . . .	<u>\$3,111,555</u>	<u>\$2,082,725</u>
<b>LIABILITIES</b>		
Unpaid losses and loss expenses . . . . .	\$ 942,221	\$ 439,550
Unearned premiums . . . . .	454,647	360,405
Deferred gain . . . . .	42,773	19,463
Accounts payable and other liabilities . . . . .	128,257	72,122
Securities lending payable . . . . .	209,137	—
Contract deposits payable . . . . .	244,665	216,887
Intercompany payables . . . . .	6,151	2,322
Long term debt . . . . .	—	2,165
Deferred taxes . . . . .	—	6,899
Income taxes payable . . . . .	4,718	—
Total liabilities . . . . .	2,032,569	1,119,813
<b>Stockholder's equity</b>		
Authorized — 1,040,000 (2005: 1,040,000) ordinary shares of par value \$1 each		
Issued — 1,000,100 (2005: 1,000,000) . . . . .	1,000	1,000
Capital contributions . . . . .	736,986	668,870
Accumulated other comprehensive (loss)/income . . . . .	(24,610)	1,663
Retained earnings . . . . .	365,610	291,379
Total stockholder's equity . . . . .	1,078,986	962,912
<b>Total liabilities and stockholder's equity</b> . . . . .	<u>\$3,111,555</u>	<u>\$2,082,725</u>

The accompanying notes are an integral part of these financial statements

**Catlin Insurance Company Ltd.**  
**Consolidated Statements of Operations**  
**For the six months ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
	(US Dollars in thousands, except share amounts)	
<b>Revenues</b>		
Gross premium written .....	\$465,241	\$396,602
Reinsurance premiums ceded .....	<u>(27,747)</u>	<u>(31,456)</u>
Net premiums written .....	437,494	365,146
Change in unearned premiums .....	<u>(70,833)</u>	<u>(115,615)</u>
Net premiums earned .....	366,661	249,531
Net investment income .....	27,478	21,978
Net realized (losses) gains on investments .....	(2,003)	1,398
Net gains (losses) on foreign currency exchange .....	25,317	(15,444)
Other income .....	<u>8,232</u>	<u>17,561</u>
Total revenues .....	<u>425,685</u>	<u>275,024</u>
<b>Expenses</b>		
Losses, loss expenses and profit commissions .....	209,706	131,938
Policy acquisition costs .....	75,190	44,572
Other expenses .....	<u>9,636</u>	<u>13,154</u>
Total expenses .....	<u>294,532</u>	<u>189,664</u>
Net income before taxes .....	131,153	85,360
Income tax recovery/(expense) .....	<u>852</u>	<u>(7,814)</u>
Net income .....	<u>\$132,005</u>	<u>\$ 77,546</u>

The accompanying notes are an integral part of these financial statements

**Catlin Insurance Company Ltd.**  
**Consolidated Statements of Changes in Stockholder's Equity and**  
**Accumulated Other Comprehensive Income**  
**For the six months ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
	(US Dollars in thousands, except share amounts)	
<b>Common Shares</b>		
Balance at beginning of period . . . . .	\$ 1,000	\$ 1,000
Balance at end of period . . . . .	<u>1,000</u>	<u>1,000</u>
<b>Capital Contributions</b>		
Balance at beginning of period . . . . .	671,035	668,870
Capital contribution . . . . .	<u>65,951</u>	<u>—</u>
Balance at end of period . . . . .	<u>736,986</u>	<u>668,870</u>
<b>Accumulated other comprehensive (loss) income</b>		
Balance at beginning of period . . . . .	(16,066)	12,656
Cumulative translation adjustment . . . . .	6,158	(5,123)
Change in unrealized losses . . . . .	<u>(14,702)</u>	<u>(5,870)</u>
Balance at end of period . . . . .	<u>(24,610)</u>	<u>1,663</u>
<b>Retained earnings</b>		
Balance at beginning of period . . . . .	233,605	213,833
Net income for period . . . . .	<u>132,005</u>	<u>77,546</u>
Balance at end of period . . . . .	<u>365,610</u>	<u>291,379</u>
<b>Total Stockholders' Equity . . . . .</b>	<u><u>\$1,078,986</u></u>	<u><u>\$962,912</u></u>

The accompanying notes are an integral part of these financial statements

**Catlin Insurance Company Ltd.**  
**Consolidated Statements of Cash Flows**  
**For the six months ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
	(US Dollars in thousands, except share amounts)	
<b>Cash flows used in operating activities</b>		
Net income .....	\$ 132,005	\$ 77,546
Adjustments to reconcile net income to net cash provided by operations .....		
Amortization of premiums/discounts on fixed maturities .....	(5,893)	(5,236)
Depreciation and amortization .....	719	2,002
Accrued investment income .....	8,889	1,684
Premiums and other receivables .....	(319,770)	(181,951)
Reinsurance recoverable .....	(5,651)	(8,003)
Ceded unearned premium .....	(5,966)	(13,284)
Funds withheld .....	292,033	153,125
Deferred acquisition costs .....	(7,973)	(18,181)
Unpaid losses and loss expenses .....	178,881	104,872
Unearned premiums .....	76,675	130,250
Deferred gain .....	8,457	10,997
Accounts payable and other liabilities .....	57,168	(4,006)
Contract deposits payable .....	(342,474)	(162,534)
Net deferred taxes .....	(199)	(68)
Net realized gains on investments .....	<u>5,230</u>	<u>(1,735)</u>
Net cash flows provided by operating activities .....	<u>74,136</u>	<u>84,076</u>
<b>Cash flow (used in)/provided by investing activities</b>		
Purchase of property, equipment and intangibles .....	(3,996)	(312)
Investment of securities lending collateral .....	(209,137)	—
Purchase of fixed maturities .....	(353,791)	(268,826)
Purchase of short-term investments .....	—	(130,048)
Sale of fixed maturities .....	335,832	226,306
Sale of short-term investments .....	<u>—</u>	<u>251,139</u>
Cash flows (used in)/provided by investing activities .....	<u>(231,092)</u>	<u>78,259</u>
<b>Cash flows provided by/(used in) financing activities</b>		
Advance to related parties .....	592	(32,505)
Securities lending received .....	209,137	—
Additional paid-in capital .....	<u>65,951</u>	<u>—</u>
Net cash flows provided by/(used in) financing activities .....	<u>275,680</u>	<u>(32,505)</u>
<b>Net increase in cash</b> .....	<u>118,724</u>	<u>129,830</u>
<b>Cash and cash equivalents — Beginning of the period</b> .....	330,093	130,296
Effects of foreign exchange gains/(losses) .....	<u>14,102</u>	<u>(10,931)</u>
<b>Cash and cash equivalents — End of the period</b> .....	<u>\$ 462,919</u>	<u>\$ 249,195</u>

The accompanying notes are an integral part of these financial statements

**Catlin Insurance Company Ltd.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended June 30, 2006 and 2005**  
**(US Dollars in thousands, except share amounts)**

**1. Basis of presentation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the US ('US GAAP') and as set out in the consolidated financial statements for the year ended December 31, 2005. 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 Company's balance sheet that involve accounting estimates and actuarial determinations are reserves for loss and loss expenses, deferred acquisition costs, reinsurance recoverables, valuation of investments and goodwill. The accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, commissions and other acquisition expenses. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates and actual results may differ from the estimates used in preparing the consolidated financial statements, the Group believes the amounts provided are reasonable.

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

***Securities lending***

The Company participates 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 Company's control and therefore are not derecognized from the Company'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 Company receives interest income on the invested collateral, which is recorded in net investment income.

***Changes in scope of consolidation***

On May 25, 2006, the CICL Group, through its wholly owned subsidiary Catlin Inc., acquired 100 percent of the outstanding common shares of American Indemnity. This company was renamed Catlin Insurance Company Inc. and it will underwrite specialty classes of property and casualty business for US commercial clients on an admitted basis.

The aggregate purchase price was \$8,375 in cash, which is equal to the fair value of net assets acquired. There was no goodwill arising on the transaction.

**2. New accounting pronouncements**

In February 2006, the Financial Accounting Standards Board ('FASB') issued FAS 155 'Accounting for Certain Financial Instruments', an amendment FAS 133, 'Accounting for Derivative Instruments and Hedging Activities, and FAS 140, 'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities'. 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 September 15, 2006, although early adoption is permitted. The adoption of FAS 155 is not expected to have a material effect on the Company's financial position or results of operations.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the six months ended June 30, 2006 and 2005**

**3. Employee Stock Compensation Scheme**

Catlin Group Limited has two stock compensation schemes in place: a Performance Share Plan, which was adopted in 2004, and a Long Term Incentive Plan, adopted in 2002. These financial statements include the total cost of stock compensation for the Company's employees for both plans, calculated using the fair value method of accounting for stock-based employee compensation.

On March 9, 2006, a total of 410,686 options with nil exercise price and 189,660 non-vested shares (total of 600,346 securities) were granted to Company employees under the PSP. Half of the securities vest on March 9, 2009 and the other half vest on March 9, 2010, subject to certain performance conditions.

**4. Investments**

The Company participates in a securities lending program 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 rate of 102% of the market value of the loaned securities and is monitored and maintained by the lending agent. The Company had \$206,997 (2005: \$nil) of securities on loan at June 30, 2006.

**5. Letters of credit & other facilities**

Total Investments and cash at June 30, 2006 are \$1,148,228 (2005: \$924,879). During November 2003, the Company entered into an agreement with Catlin Syndicate limited (CSL) and Lloyd's to provide CSL the use of assets which serves as the latter's funds at Lloyd's to enable it to underwrite as the sole member of Syndicate 2003. These assets are recorded as assets on the balance sheet of the Company but are restricted. At June 30, 2006 these funds amounted to \$340,148 (2005: \$241,743).

**6. Additional paid-in-capital**

On March 9, 2006 Catlin Group Limited raised capital of \$65 million, net of expenses through the issuance of new common shares. On March 31, 2006 Catlin Group Limited contributed \$65 million to the Company as paid-in-capital.

**7. Taxes**

In 2005 the income tax expense represents the taxes on the earnings of the Company's UK operations. However, in 2006 the UK operations generated a net loss, therefore generating a tax recovery.

**8. Related party transactions**

In June 2006, the Group entered into loans totalling \$2,250 to four executives of Southern Risk Operations ("SRO"), to permit them to acquire the shares of Southern Risk Holdings, Inc. ("SRH"), which owns 75% of SRO. Interest on these loans is charged at 2.5% over the Libor rate. The principal is repayable in four annual instalments beginning on March 31, 2007.

**PricewaterhouseCoopers**  
Chartered Accountants  
Dorchester House  
7 Church Street  
Hamilton HM 11  
Bermuda  
Telephone +1 (441) 295 2000  
Facsimile +1 (441) 295 1242  
www.pwc.com/bermuda

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and the Stockholders of Catlin Insurance Company Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, consolidated statements of changes in stockholder's equity and accumulated other comprehensive income and consolidated statements of cash flows present fairly, in all material respects, the financial position of Catlin Insurance Company Ltd and its subsidiaries at December 31, 2005, December 31, 2004 and December 31, 2003 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers  
Bermuda

Date: March 24, 2006

A list of partners can be obtained from the above address

PricewaterhouseCoopers refers to the members of the worldwide  
PricewaterhouseCoopers organisation

**Catlin Insurance Company Ltd.**  
**Consolidated Balance Sheets**  
**As at December 31, 2005, 2004 and 2003**

	2005	2004	2003
	(US Dollars in thousands, except share amounts)		
<b>ASSETS</b>			
Investments			
Fixed maturities, available-for-sale, at fair value (amortized cost 2005: \$775,659, 2004: \$621,510, 2003: \$417,306) .....	\$ 769,019	\$ 633,285	\$423,058
Short-term investments, at fair value .....	0	143,164	83,323
Investment in associate .....	2,794	2,869	2,542
Total investments .....	771,813	779,318	508,923
Cash and cash equivalents, at fair value .....	330,095	130,296	36,618
Accrued investment income .....	17,510	13,510	8,283
Premiums and other receivables .....	164,130	111,623	31,893
Reinsurance recoverable .....	41,503	10,143	0
Ceded unearned premium .....	16,140	20,818	0
Intercompany receivables .....	70,581	68,449	22,452
Funds withheld .....	881,810	541,859	298,735
Property and equipment .....	4,454	4,468	1,204
Deferred acquisition costs .....	56,423	35,457	19,342
Intangible assets .....	3,631	4,253	4,129
Deferred tax asset .....	4,670	33	0
Other assets .....	13,392	0	0
Total assets .....	<u>\$2,376,152</u>	<u>\$1,720,227</u>	<u>\$931,579</u>
<b>LIABILITIES</b>			
Unpaid losses and loss expenses .....	\$ 750,947	\$ 342,649	\$129,533
Unearned premiums .....	369,353	237,675	145,244
Deferred gain .....	28,691	8,466	0
Accounts payable and other liabilities .....	131,900	88,584	17,644
Contract deposits payable .....	200,166	142,487	0
Intercompany payables .....	450	1,826	43,187
Deferred tax liability .....	328	2,023	0
Income taxes payable .....	4,743	158	0
Total liabilities .....	<u>\$1,486,578</u>	<u>\$ 823,868</u>	<u>\$335,608</u>
<b>Stockholder's equity</b>			
Authorized — 1,040,000 (2004: 1,000,000, 2003: 1,040,000) ordinary shares of par value \$1 each Issued — 1,000,100 (2004: 1,000,100, 2003: 1,000,100) .....	\$ 1,000	\$ 1,000	\$ 1,000
Additional paid-in capital .....	671,035	668,870	488,870
Accumulated other comprehensive (loss)/income .....	(16,066)	12,656	5,752
Retained earnings .....	233,605	213,833	100,349
Total stockholder's equity .....	889,574	896,359	595,971
<b>Total liabilities and stockholder's equity</b> .....	<u>\$2,376,152</u>	<u>\$1,720,227</u>	<u>\$931,579</u>

The accompanying notes are an integral part of these financial statements

**Catlin Insurance Company Ltd.**  
**Consolidated Statements of Operations**  
**For the years ended December 31, 2005, 2004 and 2003**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(US Dollars in thousands, except share amounts)		
<b>Revenues</b>			
Gross premium written . . . . .	\$ 737,184	\$442,524	\$258,042
Reinsurance premiums ceded . . . . .	<u>(42,525)</u>	<u>(38,877)</u>	<u>(361)</u>
Net premiums written . . . . .	694,659	403,647	257,681
Change in unearned premiums . . . . .	<u>(143,078)</u>	<u>(68,709)</u>	<u>(93,342)</u>
Net premiums earned . . . . .	551,581	334,938	164,339
Net investment income . . . . .	46,781	28,796	14,572
Net realized gains on investments . . . . .	349	2,685	172
Net (losses) gains on foreign currency exchange . . . . .	(16,325)	10,591	7,860
Other income . . . . .	<u>31,877</u>	<u>14,155</u>	<u>13,961</u>
Total revenues . . . . .	<u>614,263</u>	<u>391,165</u>	<u>200,904</u>
<b>Expenses</b>			
Losses, loss expenses and profit commissions . . . . .	475,687	200,031	93,910
Policy acquisition costs . . . . .	79,104	62,379	21,687
Other expenses . . . . .	<u>27,587</u>	<u>13,034</u>	<u>5,050</u>
Total expenses . . . . .	<u>582,378</u>	<u>275,444</u>	<u>120,647</u>
Net income before taxes . . . . .	31,885	115,721	80,257
Income taxes . . . . .	<u>(12,113)</u>	<u>(2,237)</u>	<u>(142)</u>
Net income . . . . .	<u>\$ 19,772</u>	<u>\$113,484</u>	<u>\$ 80,115</u>

The accompanying notes are an integral part of these financial statements

**Catlin Insurance Company Ltd.**

**Consolidated Statements of Changes in Stockholder's Equity and  
Accumulated Other Comprehensive Income  
For the years ended December 31, 2005, 2004 and 2003**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholder's Equity</u>
	(US Dollars in thousands, except share amounts)				
<b>Balance — January 1, 2003</b> .....	\$1,000	\$438,870	\$ 20,234	\$ 170	\$460,274
Comprehensive income					
Net income .....	<u>0</u>	<u>0</u>	<u>80,115</u>	<u>0</u>	<u>80,115</u>
Other comprehensive income					
Change in unrealized appreciation on investments .....	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,582</u>	<u>5,582</u>
Total comprehensive income .....	<u>0</u>	<u>0</u>	<u>80,115</u>	<u>5,582</u>	<u>86,679</u>
Increase in paid-in capital .....	<u>0</u>	<u>50,000</u>	<u>0</u>	<u>0</u>	<u>50,000</u>
<b>Balance — December 31, 2003</b> .....	<u>\$1,000</u>	<u>\$488,870</u>	<u>\$100,349</u>	<u>\$5,582</u>	<u>\$595,971</u>
	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholder's Equity</u>
	(US Dollars in thousands, except share amounts)				
<b>Balance — January 1, 2004</b> .....	\$1,000	\$488,870	\$100,349	\$ 5,752	\$595,971
Comprehensive income					
Net income .....	<u>0</u>	<u>0</u>	<u>113,484</u>	<u>0</u>	<u>113,484</u>
Other comprehensive income					
Cumulative translation adjustment .....	<u>0</u>	<u>0</u>	<u>0</u>	<u>618</u>	<u>618</u>
Change in unrealized appreciation on investments .....	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,286</u>	<u>6,286</u>
Total comprehensive income .....	<u>0</u>	<u>0</u>	<u>113,484</u>	<u>6,904</u>	<u>120,388</u>
Increase in paid-in capital .....	<u>0</u>	<u>180,000</u>	<u>0</u>	<u>0</u>	<u>180,000</u>
<b>Balance — December 31, 2004</b> .....	<u>\$1,000</u>	<u>\$668,870</u>	<u>\$213,833</u>	<u>\$12,656</u>	<u>\$896,359</u>
	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholder's Equity</u>
	(US Dollars in thousands, except share amounts)				
<b>Balance — January 1, 2005</b> .....	\$1,000	\$668,870	\$213,833	\$ 12,656	\$896,359
Comprehensive income					
Net income .....	<u>0</u>	<u>0</u>	<u>19,772</u>	<u>0</u>	<u>19,772</u>
Other comprehensive income					
Cumulative translation adjustments .....	<u>0</u>	<u>0</u>	<u>0</u>	<u>(10,045)</u>	<u>(10,045)</u>
Change in unrealized appreciation on investments .....	<u>0</u>	<u>0</u>	<u>0</u>	<u>(18,677)</u>	<u>(18,677)</u>
Total comprehensive income .....	<u>0</u>	<u>0</u>	<u>19,772</u>	<u>(28,722)</u>	<u>(8,950)</u>
Increase in paid-in capital .....	<u>0</u>	<u>2,165</u>	<u>0</u>	<u>0</u>	<u>2,165</u>
<b>Balance — December 31, 2005</b> .....	<u>\$1,000</u>	<u>\$671,035</u>	<u>\$233,605</u>	<u>\$(16,066)</u>	<u>\$889,574</u>

The accompanying notes are an integral part of these financial statements

**Catlin Insurance Company Ltd.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2005, 2004 and 2003**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(US Dollars in thousands, except share amounts)		
<b>Cash flows used in operating activities</b>			
Net income . . . . .	\$ 19,772	\$ 113,484	\$ 80,115
Adjustments to reconcile net income to net cash provided by amortization of premiums/discounts on fixed maturities operations . .	(12,899)	(5,248)	3,136
Depreciation and amortization . . . . .	1,984	914	150
Accrued investment income . . . . .	(4,000)	(5,227)	(5,174)
Premiums and other receivables . . . . .	(52,536)	(79,730)	(21,750)
Reinsurance recoverable . . . . .	(31,360)	(10,143)	0
Ceded unearned premium . . . . .	4,678	(20,818)	0
Funds withheld . . . . .	(339,951)	(243,124)	(201,359)
Deferred acquisition costs . . . . .	(20,966)	(16,113)	(13,545)
Unpaid losses and loss expenses . . . . .	419,478	213,116	103,218
Unearned premiums . . . . .	143,878	92,431	94,722
Deferred gain . . . . .	20,225	8,466	0
Accounts payable and other liabilities . . . . .	43,316	70,939	2,817
Contract deposits payable . . . . .	57,679	142,492	0
Net deferred taxes . . . . .	(6,334)	1,774	24
Net realized gains on investments . . . . .	6,587	743	(172)
Other assets . . . . .	<u>(16,972)</u>	<u>(372)</u>	<u>93</u>
Net cash flows provided by operating activities . . . . .	<u>226,572</u>	<u>264,328</u>	<u>42,275</u>
<b>Cash flow used in investing activities</b>			
Purchase of property, equipment and intangibles . . . . .	(1,347)	(4,301)	(1,704)
Maturity of fixed maturities . . . . .	15,421	0	0
Purchase of fixed maturities . . . . .	(687,540)	(558,713)	(1,941,565)
Purchase of short-term investments . . . . .	(174,979)	(499,933)	(1,054,998)
Sale of fixed maturities . . . . .	525,347	359,563	1,545,158
Sale of short-term investments . . . . .	<u>317,206</u>	<u>440,092</u>	<u>971,675</u>
Cash flows (used in)/provided by investing activities . . . . .	<u>(5,892)</u>	<u>(263,292)</u>	<u>(481,434)</u>
<b>Cash flows provided by/(used in) financing activities</b>			
Advance (to)/from related parties . . . . .	(5,673)	(87,358)	64,180
Additional paid-in capital . . . . .	<u>2,165</u>	<u>180,000</u>	<u>50,000</u>
Net cash flows (used in)/provided by financing activities . . . . .	<u>(3,508)</u>	<u>92,642</u>	<u>114,180</u>
<b>Net increase/(decrease) in cash . . . . .</b>	<b>217,172</b>	<b>93,678</b>	<b>(324,979)</b>
<b>Cash and cash equivalents — Beginning of year . . . . .</b>	<b>130,296</b>	<b>36,618</b>	<b>360,824</b>
Effects of foreign exchange on cash balance . . . . .	<u>(17,373)</u>	<u>(1,613)</u>	<u>773</u>
<b>Cash and cash equivalents — End of year . . . . .</b>	<b><u>\$ 330,095</u></b>	<b><u>\$ 130,296</u></b>	<b><u>\$ 36,618</u></b>

The accompanying notes are an integral part of these financial statements

## **Catlin Insurance Company Ltd.**

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2005, 2004 and 2003 (US Dollars in thousands, except share amounts)**

#### **1. Nature of operations**

Catlin Insurance Company Ltd. (“CICL” or “the Company”) is a Bermuda Class 4 licensed insurer, incorporated December 18, 2000. It is a wholly owned subsidiary of Catlin Group Limited (“Catlin Group” or “the Group”), a Bermuda licensed holding company. The Company is a direct writer as well as a reinsurer of worldwide property and casualty risks. On April 6, 2004 Catlin Group Limited completed its initial public offering and was admitted to the London Stock Exchange. The Group raised \$182,627 net of expenses through the issuance of new common shares. On May 20, 2004 and April 5, 2003 the Catlin Group provided \$180,000 and \$50,000 respectively to CICL in paid-in capital.

Commencing in 2003 CICL began writing a range of products, including catastrophe and per risk excess, non-proportional treaty and casualty reinsurance business. Business is written from many countries although business from the United States of America predominates. In December 2003, CICL received authorisation from the Financial Services Authority (‘FSA’) to commence underwriting in the UK through its UK Branch operations. The branch began writing in 2004 offering D&O professional indemnity coverage, as well as general liability, property and commercial crime. In March 2005, Catlin Insurance Company (UK) Limited was authorised by the FSA and in June 2005, all of the business written by the UK Branch of CICL was novated into this new company, a subsidiary of CICL.

In 2004, the Company underwrote a 10% whole account Quota Share reinsurance of the Lloyd’s syndicates managed by its sister company Catlin Underwriting Agencies Limited (the “Syndicates”) and capitalized by the Catlin Group. In 2004, the Company underwrote a 50% whole account Quota Share reinsurance of Catlin Syndicate Limited, in respect of its participation of Lloyd’s Syndicate 2003 for each of the 2004, 2005 and 2006 Underwriting Years of Account. These Quota Share arrangements are based upon the net premium written by the Syndicates. See note 15 for further details.

During 2005, a new subsidiary of the Company, Catlin North America Holdings Limited, was capitalized. As part of this capitalization, the Catlin Group contributed Catlin Inc. to the Company in the amount of \$6,861. As Catlin Inc. was an existing Company in the Catlin Group there was no ultimate change in control, and pursuant to Statement of Financial Accounting Standards No. 141 Business Combinations, the pooling of interest method is required to be used for accounting for the business combination. The 2004 and 2003 financial statements and notes have been restated as if Catlin Inc. had been owned by the Company at that time.

#### **2. Significant accounting policies**

##### ***(a) 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 Group’s balance sheet that involve accounting estimates and actuarial determinations are reserves for loss and loss expenses, deferred acquisition costs, reinsurance recoverables, valuation of investments and goodwill. The accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, commissions and other acquisition expenses. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates and actual results may differ from the estimates used in preparing the consolidated financial statements, the Group believes the amounts provided are reasonable.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

*Principles of consolidation*

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

**(b) Investments**

*Available for sale*

The Company's investments are classified 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 unrealized gains or losses on investments, net of deferred income taxes, are included in accumulated other comprehensive income in stockholder's equity.

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

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

*Other than temporary impairments*

The Company regularly monitors its investment portfolio to ensure that investments that may be other than temporarily impaired are identified in a timely fashion and properly valued, and that any impairments are charged against earnings in the proper period. The Company's methodology to identify potential impairments requires the judgment of management. Changes in individual security values are monitored on a monthly basis in order to identify potential problem credits. The Company's decision to make an impairment provision is based on an objective review of the issuer's current financial position and future prospects, its financial strength rating and an assessment of the probability that the current market value will recover to former levels. In assessing the recovery of market value for debt securities, the Company 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 any cumulative net loss previously recognized in stockholders equity is removed from unrealized gain or loss in other comprehensive income. Inherently, there are risks and uncertainties involved in making these judgments. Changes in circumstances and critical assumptions such as a continued weak economy, a more pronounced economic downturn or unforeseen events which affect one or more companies, industry sectors or countries could result in additional writedowns in future periods for impairments that are deemed to be other-than-temporary. Additionally, unforeseen catastrophic events may require us to sell investments prior to the forecast market price recovery.

*Short-term Investments*

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

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

*Investment in associate*

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

*Cash and Cash Equivalents*

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

**(c) Premiums and Acquisition Costs**

Premiums written are recorded in accordance with the terms of the underlying policies. Premiums written are primarily earned on a 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 portion of the policies in force.

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

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

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

Acquisition costs, primarily commissions and premium taxes that vary with and are primarily related to the production of premium, are deferred and amortized over the period in which the related premiums are earned.

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

**(d) Unpaid Losses and Loss Expenses**

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

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

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

making such estimates and establishing the related liabilities are periodically reviewed and estimates are updated, as appropriate.

**(e) *Deferred Gain***

The Company or the Group, on behalf of the Company, 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 amortized into income over the settlement period of the recoveries under the relevant contract. When recognized, income is included in the line 'Other income'.

**(f) *Contract Deposits***

Contracts entered into by the Company 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 assets. Liabilities are initially recorded at an amount equal to the assets received and are included in accounts payable and other liabilities.

The Company 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 Company 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.

**(g) *Intangible assets and Goodwill***

Goodwill represents the excess of total consideration paid over the net assets acquired when a subsidiary. Pursuant to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ('FAS 142'), goodwill is deemed to have an infinite life and should not be 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 is recorded. The measurement of fair value of the reporting unit was based on an evaluation of ranges of future discounted earnings. Certain key assumptions considered include forecasted trends in revenues, operating expenses and effective tax rates. The Company completed the required goodwill impairment testing during 2005, 2004 and 2003 and determined that no impairment existed.

Intangible assets are valued at their fair value at the time of acquisition. The Company's intangibles relate to the purchase of surplus lines licenses.

Surplus lines licenses are considered to have a finite life and are generally amortised over their estimated useful lives of 15 years. In 2005, the Company evaluated the recoverability of its Surplus lines licenses held in Bermuda, and it was determined that the Surplus lines licenses do not have any future benefit to the Company since the establishment of the UK subsidiary (see Note 1) therefore the excess of the unamortised balance of the Surplus lines licenses was charged to earnings.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

***(h) 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 up to four years for fixtures and fittings, and two years for computer equipment. Leasehold improvements are amortized over the life of the lease or the life of the improvement, whichever is shorter. Computer software development costs are capitalized when incurred and depreciated over their estimated useful lives of three years.

***(i) Reinsurance***

In the ordinary course of business, and as part of the Group reinsurance program, the Company cedes reinsurance to other insurance companies. These arrangements allow for greater diversification of business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve the Group or the Company of its obligation to its insureds. Reinsurance premiums ceded are recognized and commissions thereon are earned over the period that the reinsurance coverage is provided.

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

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

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

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

***(j) Stock Compensation***

Certain employees of the Company are partially compensated through options granted on the stock of the Catlin Group.

The 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'), and under Statements of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ('FAS 123') in prior periods.

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

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.

***(k) Comprehensive Income/(Loss)***

Comprehensive income/(loss) represents all changes in equity of an enterprise that result from recognized 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 unrealized gains or losses on available for sale investments and foreign currency translation adjustments relating to the UK subsidiary which has a sterling functional currency.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

***(l) Foreign Currency Translation***

*Foreign currency translation*

The Company has more than one functional currency, generally the currency of the local operating environments, consistent with its operating environment and underlying cash flows. The presentation currency of the Company has been determined to be US dollars. For subsidiaries 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 foreign currencies 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.

***(m) Other Income***

Other income consists of related party fee income (see Note 15 for further details) and the income recognized on contract deposits.

***(n) Pensions***

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

***(o) Income Taxes***

Income taxes have been provided for on those operations that are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Company's assets and liabilities. Such temporary differences are primarily due to the tax basis discount on unpaid losses, adjustment for unearned premiums, the accounting treatment of reinsurance contracts, and tax benefits of net operating loss carryforwards. 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.

***(p) Risks and uncertainties***

In addition to the risks and uncertainties associated with unpaid losses and loss expenses described above and in Note 4, cash balances, investment securities and reinsurance recoveries are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements. The cash balances and investment portfolio are managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single institution issue and issuers. The Group believes that there are no significant concentrations of credit risk associated with its investments. Similar diversification provisions are in place governing the Group's reinsurance programme.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

***(q) New accounting pronouncements***

In April 2005, the Financial Accounting Standards Board ('FASB') issued FAS 123 (revised 2004), *Share-based Payments* ('FAS 123R'), which is a revision of FAS 123, *Accounting for Stock-based Compensation*. FAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services for share-based payment transactions, and requires that all share-based payment transactions are recorded at fair value. FAS 123R is effective for reporting periods beginning after 15 December 2005, but early adoption is permitted. The Group has adopted the provisions of FAS 123R in these 2005 consolidated financial statements, such that the Performance Share Plan described in Note 14 has been accounted for in accordance with FAS 123R. The Group's former stock option plan was historically accounted for at fair value and therefore the adoption of FAS 123R had no impact on the Group's financial position or results of operations.

In June 2005, the FASB issued Financial Accounting Standard 154, ('FAS 154') *Accounting Changes and Error Corrections*, a replacement of APB No. 20 and FAS No 3. FAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. FAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle and requires that a change in depreciation, amortisation, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. The provisions of FAS 154 are effective for accounting changes made in fiscal years beginning after December 15, 2005, but early adoption is permitted. The adoption of FAS 154 will not have an impact on the Group's financial position or results of operations.

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

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)**  
**For the years ended December 31, 2005, 2004 and 2003**

**3. Investments**

***Fixed maturities***

The fair values and amortized costs of fixed maturities at December 31, 2005 and 2004 are as follows:

	<u>December 31, 2005</u>			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
U.S. Government and agencies . . . . .	\$504,807	\$551	\$5,188	\$500,170
Non-U.S. Government . . . . .	131,241	241	92	131,390
Corporate securities . . . . .	77,295	11	1,194	76,112
Asset backed securities . . . . .	<u>62,316</u>	<u>9</u>	<u>978</u>	<u>61,347</u>
Fixed maturities . . . . .	<u>\$775,659</u>	<u>\$812</u>	<u>\$7,452</u>	<u>\$769,019</u>
	<u>December 31, 2004</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government and agencies . . . . .	\$421,807	\$12,582	\$ 52	\$434,337
Non-U.S. Government . . . . .	37,858	13	0	37,871
Corporate securities . . . . .	90,301	109	615	89,795
Asset backed securities . . . . .	<u>71,544</u>	<u>32</u>	<u>294</u>	<u>71,282</u>
Total . . . . .	<u>\$621,510</u>	<u>\$12,736</u>	<u>\$961</u>	<u>\$633,285</u>
	<u>December 31, 2003</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government and agencies . . . . .	\$316,350	\$5,776	\$128	\$321,998
Non-U.S. Government . . . . .	0	0	0	0
Corporate securities . . . . .	75,935	173	88	76,020
Asset backed securities . . . . .	<u>25,601</u>	<u>29</u>	<u>10</u>	<u>25,040</u>
Total . . . . .	<u>\$417,306</u>	<u>\$5,978</u>	<u>\$226</u>	<u>\$423,058</u>

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)**  
**For the years ended December 31, 2005, 2004 and 2003**

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

	<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>Amortized Cost</u>	<u>%</u>	<u>Amortized Cost</u>	<u>%</u>	<u>Amortized Cost</u>	<u>%</u>
US Government & Agency .....	\$504,807	65%	\$428,867	69%	\$316,350	76%
Non-US governments .....	131,241	17%	0	0%	0	0%
AAA .....	71,625	9%	116,836	19%	36,447	9%
AA .....	23,673	3%	22,576	4%	17,756	4%
A .....	44,313	6%	52,829	8%	46,753	11%
BBB .....	<u>0</u>	<u>0%</u>	<u>402</u>	<u>0%</u>	<u>0</u>	<u>0%</u>
Total fixed maturities .....	<u>\$775,659</u>	<u>100%</u>	<u>\$621,510</u>	<u>100%</u>	<u>\$417,306</u>	<u>100%</u>

The following is an analysis of how long each of the fixed maturities that were in an unrealized loss position as at December 31, 2005 had been in a continual loss position. This information concerns the potential effect upon future earnings and financial position should management later conclude that some of these current unrealized losses represent other than temporary declines in the value of the securities.

	<u>Less than 12 Months</u>		<u>Equal to or Greater than 12 Months</u>	
	<u>Market Value</u>	<u>Gross Unrealized Losses</u>	<u>Market Value</u>	<u>Gross Unrealized Losses</u>
US government and agencies .....	\$447,082	\$4,730	\$ 0	\$ 0
Non-US governments .....	4,414	60	0	0
Corporate securities .....	66,821	1,180	592	15
Asset-backed securities .....	<u>51,683</u>	<u>943</u>	<u>2,137</u>	<u>35</u>
Total fixed maturities .....	<u>\$570,000</u>	<u>\$6,913</u>	<u>\$2,729</u>	<u>\$50</u>

The evaluation of other than temporary impairments is performed on a CUSIP basis, whereas the gross unrealized losses are evaluated on an aggregated security lot basis. The Company believes these impairments are temporary.

Proceeds from the sales and maturities of fixed maturities during 2005 were \$525,347 (2004: \$359,563, 2003: \$1,545,158). Proceeds from the sales and maturities of short-term investments during 2005 were \$317,206 (2004: \$440,092, 2003: \$971,675).

Mortgage-backed securities issued by US government agencies are combined with all other asset-backed securities and are included in the category “asset-backed securities”. Approximately 13%% (2004: 24%) of the total asset-backed holdings at December 31, 2005 are represented by investments in SallieMae, Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation bonds. The remainder of the asset-backed exposure consists of non-government asset-backed securities, the majority of which provide a planned structure for principal and interest payments and carry a “AAA” rating by the major credit rating agencies.

The Company did not have an aggregate investment in a single entity, other than the US government securities, in excess of 10% of total investments at December 31, 2005, 2004 and 2003.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

Fixed maturities at December 31, 2005, 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.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less .....	\$ 20,916	\$ 20,666
Due after one through five years .....	301,366	299,903
Due after five years through ten years .....	383,374	379,513
Due after ten years .....	<u>7,687</u>	<u>7,590</u>
	713,343	707,672
Asset backed securities .....	<u>62,316</u>	<u>61,347</u>
Total .....	<u>\$775,659</u>	<u>\$769,019</u>

The components of net investment income for the year ended December 31, 2005, 2004 and 2003 are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest income .....	\$32,669	\$20,850	\$14,884
Equity earnings in investment .....	1,343	1,400	1,229
Investment income on funds withheld .....	2,974	2,519	2,079
Amortization .....	<u>11,420</u>	<u>5,248</u>	<u>(3,136)</u>
Gross investment income .....	48,406	30,017	15,056
Investment expenses .....	<u>(1,625)</u>	<u>(1,221)</u>	<u>(484)</u>
Net investment income .....	<u>\$46,781</u>	<u>\$28,796</u>	<u>\$14,572</u>

The analysis of realized gains (losses) on the sales and maturities of fixed maturities and short-term investments for the years ended December 31, 2005, 2004 and 2003 are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Gross realized gains .....	\$2,928	\$3,006	\$1,145
Gross realized losses .....	<u>(2,579)</u>	<u>(321)</u>	<u>(973)</u>
Net realized gains .....	<u>\$ 349</u>	<u>\$2,685</u>	<u>\$ 172</u>

The Company 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 Company also utilizes trust funds in certain large intercompany transactions where the trust funds are set up for the benefit of the ceding companies, and generally take the place of Letter of Credit ("LOC") requirements. The total value of these restricted assets by category at December 31, 2005, 2004 and 2003 are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Fixed maturities, available for sale .....	\$283,677	\$256,807	\$172,133
Cash and cash equivalents .....	<u>32,823</u>	<u>1,286</u>	<u>15,503</u>
Total restricted assets .....	<u>\$316,500</u>	<u>\$258,093</u>	<u>\$187,636</u>

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)**  
**For the years ended December 31, 2005, 2004 and 2003**

The Company is a member of a Lloyds third party deposit trust, whereby CICL has agreed to provide the use of certain funds (included above) to Catlin Syndicate Limited ('CSL') and to guarantee certain obligations of CSL to support its Funds at Lloyds requirements. Restricted assets may be broken down as follows: Lloyds deposit trust \$241,904 (2004: \$237,524, 2003: \$182,133), as described in Note 14, and US surplus lines trusts \$7,684 (2004: \$5,590, 2003: \$5,503).

The Company also has fixed maturities, cash and short-term investments in segregated portfolios primarily to provide collateral or guarantees for LOC's which total \$66,912 (2004: \$14,979, 2003: \$903) as described in Note 14.

**4. Investment in associate**

The Company, through Catlin Inc., its US subsidiary, has a 25% membership interest in Southern Risk Operations, L.L.C. ('SRO') which is accounted for using the equity method. The Company received cash distributions from SRO during the year ended December 31, 2005 of \$1,418 (2004: \$1,073, 2003: \$1,539). The share of SRO's profit included within the Consolidated Statement of Operations during 2005 was \$1,343 (2004: \$1,400, 2003: \$1,229). In management's opinion, the fair value of SRO is not less than its carrying value.

**5. Unpaid Losses and loss expenses**

The Company establishes reserves for losses and loss adjustment expenses, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves is complex and imprecise, requiring the use of informed estimates and judgments. The Company'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. The reserves established on the business assumed from group companies are predominantly reliant upon the actuarial estimates of those group companies. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in the Company's results of operations in the period in which the estimates are changed. Management believes they have made a reasonable estimate of the level of reserves at December 31, 2005, 2004 and 2003.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)**  
**For the years ended December 31, 2005, 2004 and 2003**

The reconciliation of reserve for losses and loss expenses for the years ended December 31, 2005, 2004 and 2003 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Gross reserve for losses and loss expenses, beginning of year . .	\$342,649	\$129,533	\$ 26,315
Net reserve for losses and loss expenses beginning of year . . . .	<u>332,506</u>	<u>129,533</u>	<u>26,315</u>
Net incurred (released) losses and loss expenses for claims related to:			
Current year . . . . .	508,862	214,926	88,448
Prior years . . . . .	<u>(33,175)</u>	<u>(14,895)</u>	<u>5,462</u>
Total incurred . . . . .	<u>475,687</u>	<u>200,031</u>	<u>93,910</u>
Net paid losses and loss expenses for claims related to:			
Current year . . . . .	(11,934)	(17,140)	(43)
Prior year . . . . .	<u>(33,291)</u>	<u>(390)</u>	<u>—</u>
Total paid . . . . .	<u>(45,225)</u>	<u>(17,530)</u>	<u>(43)</u>
Foreign exchange adjustment . . . . .	<u>(48,193)</u>	<u>20,472</u>	<u>9,351</u>
Net reserve for losses and loss expenses end of year . . . . .	714,775	332,506	129,533
Reinsurance recoverable on unpaid loss and loss expenses . . . . .	<u>36,172</u>	<u>10,143</u>	<u>—</u>
Gross reserve for losses and loss expenses, end of year . . . . .	<u>\$750,947</u>	<u>\$342,649</u>	<u>\$129,533</u>

The Quota Share treaty contracts, discussed in Note 1, operate on a “funds withheld” basis. This basis means that if the 2005, 2004 or 2003 Underwriting Years of Account (measured on the Lloyd’s 3-year basis) closes in the ordinary course by way of reinsurance, there will be only one cash transaction for that respective year, which shall encompass all of the financial transactions specified therein. This effectively means that throughout the duration of the treaties all of the company’s premiums, assumed under the contracts, will be included as part of the funds withheld balance, while any claims under the agreements will be included as part of the losses and loss adjustment expenses reserve, pending final net cash settlement after the end of the third respective year. Acquisition costs are included in the Intercompany payables balance. As such CICL will not record any paid losses under these contracts until final settlement.

**2005 Hurricanes**

Net incurred losses and loss expenses for claims related to the current year include \$74,044 of net losses incurred in respect of the three hurricanes (Katrina, Rita and Wilma) that caused extensive damage in the Gulf of Mexico and south-eastern United States during the second half of 2005. The following table summarises the gross to net position:

Gross losses . . . . .	\$91,551
Reinsurance recoveries . . . . .	<u>(17,507)</u>
Net loss prior to reinsurance costs . . . . .	74,044
Net reinstatements due on ceded business . . . . .	2,658
Reinsurance restatements on assumed business . . . . .	<u>(7,242)</u>
Net loss . . . . .	<u>\$69,460</u>

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)**  
**For the years ended December 31, 2005, 2004 and 2003**

The figures above represent management's best estimate of the likely final losses to the Company from the three hurricanes. In making this estimate, management has used what they believe to be the best information available, including estimates performed by Catlin's underwriters, actuarial and claims staff, retained external actuaries, outside agencies and market studies. Hurricane Katrina is the largest insured loss in history and is still subject to particular uncertainty both in respect of the original loss and the impact on the reinsurance market. Management's best estimate is based on an assessment of individual contracts in which the Company has a participation. Where affected classes of business underwritten by Catlin are covered by reinsurance, management's best estimate of losses is within the limits of reinsurance protections in respect of all three hurricanes. Where affected classes of business are not covered by reinsurance, any changes to management's best estimate will be fully reflected in net losses and loss expenses in that period.

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 in the United States, 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.

**6. Reinsurance**

The Group, on behalf of the Company, purchases reinsurance to limit various exposures including catastrophe risks. Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for the agreed upon portion of its gross paid losses, they do not discharge the primary liability of the Company. Commencing in 2004 the Company contributed to the cost of and is entitled to a share of any recoveries under this program. The effect of reinsurance and retrocessional activity on premiums written and earned is as follows:

	2005		2004		2003	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Direct . . . . .	\$254,331	\$ 230,522	\$225,256	\$107,306	\$ 4,359	\$ 2,698
Assumed . . . . .	482,853	487,901	217,268	246,456	253,683	162,002
Ceded . . . . .	(42,525)	(166,842)	(38,877)	(18,824)	(361)	(361)
Net premiums . . . . .	<u>\$694,659</u>	<u>\$ 551,581</u>	<u>\$403,647</u>	<u>\$334,938</u>	<u>\$257,681</u>	<u>\$164,339</u>

The 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 reinsurers must maintain a minimum financial strength rating of 'A' from Standard & Poor's or 'A -' from A M Best. At December 31, 2005, there were four reinsurers which accounted for more than 5% of the total reinsurance recoverable.

	<u>% of Reinsurance Recoverable</u>	<u>AM Best Rating</u>
National Indemnity Company . . . . .	14	A++
ERC Frankona Ruckversicherungs AG . . . . .	11	A
Hannover Ruck AG . . . . .	8	A
Munich Re . . . . .	8	A+

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

**7. Property and equipment**

Following are the components of property and equipment:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Leasehold improvements . . . . .	\$3,387	\$2,929	\$ 614
Computer equipment . . . . .	801	742	862
Furniture, fittings and software . . . . .	<u>2,985</u>	<u>2,105</u>	<u>302</u>
Total . . . . .	7,173	5,776	1,778
Less: Accumulated depreciation . . . . .	<u>(2,719)</u>	<u>(1,308)</u>	<u>(574)</u>
Net property and equipment . . . . .	<u>\$4,454</u>	<u>\$4,468</u>	<u>\$1,204</u>

Depreciation expense for the year ended December 31, 2005 is \$1,312 (2004: \$872, 2003: \$150).

**8. Intangible assets and goodwill**

Net intangible assets as at December 31, 2005, 2004 and 2003 consists of the following:

	<u>Intangible Assets</u>	<u>Goodwill</u>	<u>Total</u>
<b>Net value at January 1, 2003</b> . . . . .	\$ 0	\$3,583	\$3,583
Movements during 2003			
Additions . . . . .	546	0	546
Amortization charge . . . . .	0	0	0
Total movements during 2003 . . . . .	<u>546</u>	<u>0</u>	<u>546</u>
Gross value at December 31, 2003 . . . . .	546	3,583	4,129
Accumulated amortization . . . . .	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$546</u>	<u>\$3,583</u>	<u>\$4,129</u>
<b>Net value at December 31, 2003</b>			
Movement during 2004			
Additions . . . . .	166	0	166
Amortization charge . . . . .	<u>(42)</u>	<u>0</u>	<u>(42)</u>
Total movements during 2004 . . . . .	<u>124</u>	<u>0</u>	<u>124</u>
Gross value at December 31, 2004 . . . . .	712	3,583	4,295
Accumulated amortization . . . . .	<u>(42)</u>	<u>0</u>	<u>(42)</u>
<b>Net value at December 31, 2004</b> . . . . .	<u>\$670</u>	<u>\$3,583</u>	<u>\$4,253</u>

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)**  
**For the years ended December 31, 2005, 2004 and 2003**

	<u>Intangible Assets</u>	<u>Goodwill</u>	<u>Total</u>
Movement during 2005			
Additions .....	\$ 51	0	51
Foreign exchange adjustment .....	(2)	0	(2)
Write-off .....	(670)	0	(670)
Amortization charge .....	<u>0</u>	<u>0</u>	<u>0</u>
Total movements during 2005 .....	<u>(621)</u>	<u>0</u>	<u>(621)</u>
Gross value at December 31, 2005 .....	49	3,583	3,632
Accumulated amortization .....	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net value at December 31, 2005 .....</b>	<b><u>\$ 49</u></b>	<b><u>\$3,583</u></b>	<b><u>\$3,632</u></b>

See Note 1(g) for details of the write-off during 2005.

Neither goodwill nor other intangibles were impaired in 2005, 2004 or 2003.

**9. Taxation**

The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2016. At the present time, no such taxes are levied in Bermuda.

The Company also operates in the UK and the US through its subsidiaries and their income is subject to both UK and US corporation taxes.

The income tax expense for the years ended December 31, 2005, 2004 and 2003 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current tax expense .....	\$14,904	\$ 431	\$118
Deferred tax expense .....	<u>(2,791)</u>	<u>1,806</u>	<u>24</u>
Expense for income taxes .....	<u><u>\$12,113</u></u>	<u><u>\$2,237</u></u>	<u><u>\$142</u></u>

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 Company is 37.0% (2004: 1.9%; 2003: 0.2%), which has increased in 2005 because of a change in the balance of the geographical distribution of profits. 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 December 31, 2005, 2004 and 2003 is provided below.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Expected tax expense at weighted average rate .....	\$11,039	\$2,272	\$142
Permanent differences:			
Benefit of deduction of state level taxes .....	(147)	(35)	0
Under/(over) accrual of tax in prior periods .....	<u>1,221</u>	<u>0</u>	<u>0</u>
Expense for income taxes .....	<u><u>\$12,113</u></u>	<u><u>\$2,237</u></u>	<u><u>\$142</u></u>

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

The components of the Company's net deferred tax asset/(liability) as of December 31, 2005, 2004 and 2003 are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Deferred tax assets:			
Net operating loss carryforwards .....	\$ 501	\$ 33	\$ 0
Cumulative translation adjustment .....	4,169	0	0
Total deferred tax assets .....	<u>4,670</u>	<u>33</u>	<u>0</u>
Deferred tax liabilities			
Cumulative translation adjustment .....	0	(1,996)	0
Accelerated capital allowances .....	(23)	(27)	0
Other .....	<u>(305)</u>	<u>0</u>	<u>0</u>
Net deferred tax asset/(liability) .....	<u>\$4,342</u>	<u>\$(1,990)</u>	<u>\$ 0</u>

No valuation allowance was necessary as at December 31, 2005, 2004 and 2003.

As of December 31 2005, the Company has net operating loss carryforwards of approximately \$505, which are available to offset future taxable income (2004: \$33). The net operating loss carryforwards arise in the US subsidiaries where they are expected to be fully utilised. There are no time restrictions on the utilisation of these losses.

**10. Stockholder's equity**

The following table outlines the changes in common shares issued and outstanding during 2005, 2004 and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Balance — Beginning of year .....	<u>\$1,000,100</u>	<u>\$1,000,100</u>	<u>\$1,000,100</u>
Balance — End of year .....	<u>\$1,000,100</u>	<u>\$1,000,100</u>	<u>\$1,000,100</u>

Shares were issued at \$1 (par value) each and have equal voting rights.

On May 20, 2004 and April 5, 2003 respectively, the Company received additional paid-in capital from its parent of \$180,000 and \$50,000 in cash. On April 6, 2004, the Group completed its initial public offering ('IPO') and was admitted to the London Stock Exchange plc.

During the year a non-cash contribution was made to the Company of \$2.1 million as part of the establishment of the US Subsidiary (see Note 1).

**11. Pension Commitments**

In Bermuda, the Company operates a defined contribution scheme for all employees. The pension cost for the scheme was \$470 for the year ended December 31, 2005 (2004: \$910, 2003: \$145).

In the US, Catlin Inc. has adopted a 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. Contributions are made to the Plan as determined by the Board of Directors of the Group on an annual basis and are allocated on a pro rata basis to individual employees based upon eligible compensation. The pension cost for the Plan was \$303 for the year ended December 31, 2005 (2004: \$126, 2003: \$156).

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

**12. Employee Stock Compensation Scheme**

The Group has two stock compensation schemes in place: a Performance Share Plan, which was adopted in 2004, and a Long Term Incentive Plan, adopted in 2002. These financial statements include the total cost of stock compensation for the Company's employees for both plans, calculated using the fair value method of accounting for stock-based employee compensation. There is no requisite service period for employees to participate in those plans. The total cost of the plans expensed by the Company for the year ended December 31, 2005 was \$738 (2004: \$665, 2003: \$176).

***Performance Share Plan ('PSP')***

The first awards were made to employees under the PSP on March 11, 2005. Options with a nil exercise price over 339,177 shares and 77,182 non-vested shares (total of 444,449 securities) were granted to Company employees. Up to half of the securities will vest on March 11, 2008 and up to half will vest on March 11, 2009, subject to certain performance conditions calibrated to stockholder returns. These securities have been treated as non-vested shares and as such have been measured at their fair value as if they were vested and issued on the grant date, excluding the impact of performance vesting conditions. Performance vesting conditions are included in assumptions about the number of non-vested shares that employees will ultimately receive. This estimate is revised at each balance sheet date and the difference is charged or credited to the income statement, with a corresponding adjustment to equity. The total number of PSP securities outstanding at December 31, 2005 was 444,449 and the total compensation expense relating to the PSP for the year ended December 31, 2005 was \$485.

***Long Term Incentive Plan ('LTIP')***

After adjusting for the effects of the bonus issuance and share consolidation interests in shares equivalent to 10% of the Group's fully diluted share capital as at July 4, 2002, (a total of 16,051,613 ordinary common shares) were granted to eligible employees. 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 July 1, 2007.

During 2002, the Group granted options over 14,624,099 shares, which had been allocated to employees based on the fair value as at July 4, 2002, being \$5.20 per share.

During 2003, the Group granted options over a further 1,427,514 shares to employees, based on the fair value as at December 31, 2003, being \$7.60 per share.

Immediately prior to the IPO on April 6, 2004, the Board approved the grant of options over an additional 739,979 interests in shares, with exercise prices of \$6.40 (£3.50), \$10.00, \$12.50 and \$15.00. The weighted average exercise price of interests allocated is \$10.06 per share (2003: \$9.50 per share). At the same time, the Board also approved the acceleration of the vesting date of one half of the options with exercise prices of \$10.00, \$12.50 and \$15.00, from July 1, 2007 to April 6, 2004 (date of Admission). The impact of the acceleration of the vesting date is to shorten the remaining expected life of the modified options from 3.625 years to 1.875 years. This modification has resulted in no additional compensation expense.

The options vest on various dates as prescribed under LTIP plan documentation, but in any event all will have vested and will expire by July 4, 2012. 1,576,110 interests vested on July 4, 2003. Upon the IPO on April 6, 2004, 4,815,484 interests vested and on July 4, 2004, a further 1,668,261 interests vested. 1,655,158 interests vested on July 4, 2005.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

The table below shows the status of the interests in shares of the Company as at December 31, 2005, 2004 and 2003:

	2005		2004		2003	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period . . . . .	878,990	\$ 9.81	569,287	\$ 1.90	34,597	\$9.50
Granted during year . . . . .	0	0	318,537	10.06	534,689	9.50
Exercised during year . . . . .	(4,815)	5.00	(2,408)	5.00	0	0
Transferred/(Forfeited) during year . . . . .	<u>27,437</u>	<u>10.00</u>	<u>(6,426)</u>	<u>10.00</u>	<u>0</u>	<u>0</u>
Outstanding, end of period	<u>901,612</u>	<u>\$ 9.81</u>	<u>878,990</u>	<u>\$ 5.15</u>	<u>569,287</u>	<u>\$9.50</u>

<u>Exercise Price</u>	<u>Number of Options Outstanding</u>	<u>Average Remaining Contractual Life</u>	<u>Number of Options Exercisable</u>
\$ 5.00 . . . . .	214,673	6.5	157,436
£ 3.50 . . . . .	141,254	6.5	70,628
\$10.00 . . . . .	181,895	2.0	55,635
\$12.50 . . . . .	181,895	2.0	55,635
\$15.00 . . . . .	<u>181,895</u>	<u>2.0</u>	<u>55,635</u>
Total . . . . .	<u>901,612</u>	<u>3.7</u>	<u>394,969</u>

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

The fair value of the options granted during 2005, 2004 and 2003 was calculated using the Black-Scholes valuation model and is being amortised over the expected vesting period of the options, being 4 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 vests on July 4, 2007. The valuation has assumed an average volatility of 40%, no expected dividends and a risk free rate using US dollar swap rates appropriate for the expected life assumptions: 2.8% for four years; 1.79% for 1.875 years; and 2.64% 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% and no expected volatility (as the minimum value method was utilised because the Company was not listed on the date the options were issued).

**13. Statutory requirements**

Under the Bermuda Insurance Act 1978, amendments thereto and related regulations, ('the Act'), the Company is required to maintain minimum capital and surplus of \$284,501 (2004: \$369,631, 2003: \$128,840) as at December 31, 2005. The Company's actual statutory capital and surplus as of December 31, 2005 is \$808,789 (2004: \$603,003, 2003: \$386,410) and is sufficient to meet the requirements of the Act. As the Company's statutory capital and surplus requirements are fully covered by its additional paid-in capital, there are no restrictions on the Company's retained earnings available for distribution. The Company is also required to maintain a minimum liquidity ratio as defined by the Act and as of December 31, 2005, 2004 and 2003 this requirement was also met.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

**14. Commitments and contingencies**

**(a) Concentrations of credit risk**

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

See Note 5 with respect to the risk related to reinsurance recoverables.

The cash balances and investment portfolio is managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single institution issue and issuers. The Company believes that there are no significant concentrations of credit risk associated with its investments.

**(b) Lease commitments**

The company leases office space and equipment under non-cancelable operating lease agreements which expire at various times. Lease payments during the year were \$576 (2004: \$631, 2003: \$115). Future minimum lease commitments for non-cancelable operating leases as at December 31, 2005 are as follows:

	<b>Future Minimum Lease Commitments</b>
2006 .....	\$ 890
2007 .....	852
2008 .....	801
2009 .....	303
2010 .....	<u>327</u>
Total .....	<u><u>\$3,173</u></u>

**15. Letters of credit & other facilities**

Total Investments and cash at December 31, 2005 are \$1,101,908 (2004: \$909,613, 2003: \$535,067). During November 2003, the Company entered into an agreement with Catlin Syndicate Limited (CSL) and Lloyd's to provide CSL the use of assets (see Note 3-Restricted Assets) which serves as the latter's funds at Lloyd's to enable it to underwrite as the sole member of Syndicate 2003. These assets are recorded as assets on the balance sheet of the Company but are restricted. At December 31, 2005 these funds amounted to \$241,904 (2004: \$237,524, 2003: \$182,133).

Since November 2003, the Catlin Group has participated in a Letter of Credit/Revolving Loan Facility (the 'Club Facility') with three banks. Each bank participates equally in the Club Facility. The Club Facility is comprised of three tranches as detailed below. The Club Facility has been varied, amended and restated since it was originally entered into, most recently on December 22, 2005 when the credit available under the Club Facility increased from \$150,000 and £125,000 to \$250,000 and £150,000 respectively. The following amounts were outstanding under the Club Facility as at December 31, 2005:

- Debt outstanding was \$50,000, in the form of a 364-day \$50,000 revolving facility with a one year term-out option ('Facility A'). Facility A, while not directly collateralised, is secured by floating charges on Group assets and cross guarantees from material subsidiaries. This debt bears interest at three-month Libor plus 65 basis points, and the Group is required to maintain free and unencumbered assets consisting of OECD Government Bonds, US Agencies and Corporate Bonds, discounted by 10%, sufficient to repay the loan at any time. The undrawn portion of Facility A costs 25 basis points per annum. This loan, which is available under one, two or three month renewal periods, can be repaid at any time at the discretion of

## Catlin Insurance Company Ltd.

### Notes to the Consolidated Financial Statements — (Continued) For the years ended December 31, 2005, 2004 and 2003

the Group in increments of \$10 million. The Catlin Group has the option to extend the revolving facility for 364 days, or to convert all cash advances into a term loan.

- A clean, irrevocable standby LOC of \$258,000 (£150,000) is provided to support CSL's underwriting at Lloyd's ('Facility B'). As at December 31, 2005, CSL has utilised Facility B and deposited with Lloyd's an LOC in the amount of \$215,000 (£125,000). In the event that CSL failed to meet its obligations under policies of insurance written on its behalf, Lloyd's could draw down this letter of credit. This LOC became effective on November 24, 2005 and has an initial expiry date of November 27, 2009. Collateral of \$68,800 (£40,000) must be provided by August 1, 2006 and a further \$34,400 (£20,000) must be provided by August 1, 2007.
- A two-year \$200 million standby LOC facility is available for utilisation by the Company ('Facility C'). At December 31, 2005, \$121,689 in LOC's were outstanding, of which \$119,855 are issued for the benefit of CICL Bermuda, with a single LOC of \$1,834 (£1,066) being for the benefit of CICL UK. Collateral of 110% of 50% of the face value of the utilised portion of the LOC's under the facility must be provided.

The terms of the Club Facility, of which the Company is a co-guarantor, require that certain financial covenants be met on a quarterly basis through the filing of Compliance Certificates. These include maximum levels of possible exposures to realistic disaster scenarios for the Group, as well as requirements to maintain minimum Tangible Net Worth and Adjusted Tangible Net Worth levels, the calculations of which are based upon fixed amounts in 2005 and increase over time, for items such as consolidated net income in future accounting periods. The Group was in compliance with all covenants during 2005.

#### 16. Related parties

As was noted in Note 1 certain underwriting activities were undertaken with fellow Catlin Group companies ('the Group'). In 2003 and 2004 respectively, the Company underwrote a 30% and 10% whole account Quota Share reinsurance (QQS) of the Lloyd's syndicate managed by its sister company Catlin Underwriting Agencies Limited and capitalized by the Catlin Group. However, due to a change in the Lloyd's regulation this contract was not renewed January 1, 2005.

The Company paid a commission of 5% of original net premium and a profit commission of 15% of the net profit on this business. It is also liable for its proportionate share of the Lloyd's Levy and Central Fund contribution payable by the syndicates.

In 2004 the Company underwrote a 50% whole account Quota Share reinsurance (CQS) of the Catlin Syndicate Limited ('CSL'), in respect of its participation of Lloyd's Syndicate 2003 for each of the 2004, 2005 and 2006 Underwriting Years of Account. As this contract was entered into in December 2004, and covered the 2004 Underwriting Year of Account it is partially accounted for as Retrospective reinsurance and is accounted for as a contract deposit. This contract is also accounted for on a fund held basis. These Quota Share arrangements are based upon the net premium written by the Syndicates.

The Company pays a commission of 10.3% of original net premium and a profit commission of 15% of the net profit on a cumulative basis for all underwriting years of account of the reinsurer on this business. The contract has limits of 25% excess 75% on Net Premium written plus 25% excess of 130% of Net Premium Written.

In 2005, 2004 and 2003 the Company underwrote a long-tail stop loss reinsurance treaty (LTSL) with Catlin Underwriting Agencies Limited of the wholly owned Lloyd's Syndicate managed by its sister company. The LTSL provides protection for the Syndicate against the volatility of loss activity within its long-tail casualty classes.

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)  
For the years ended December 31, 2005, 2004 and 2003**

The 2004 and 2003 contracts both have limits of 25% excess 75% on Net Premium written plus 25% excess of 130% of Net Premium Written and the 2005 contract is 40% excess of 90% loss ratio after the benefit of all inuring reinsurance.

The amounts booked with respect to these three contracts were as follows:

	<b>December 31, 2005</b>			
	<u>Premiums Written</u>	<u>Earned Premiums</u>	<u>Acquisition Costs</u>	<u>Loss and Loss Expenses</u>
QQS .....	\$ (69)	\$ 37,585	\$6,371	\$ 0,224
CQS .....	\$305,390	\$159,648	\$2,655	\$235,127
LTSL .....	\$ 22,555	\$ 24,628	\$ 0	\$ 1,614

	<b>December 31, 2004</b>			
	<u>Premiums Written</u>	<u>Earned Premiums</u>	<u>Acquisition Costs</u>	<u>Loss and Loss Expenses</u>
QQS .....	\$68,383	\$121,563	\$15,771	\$76,216
CQS .....	\$ 0	\$ 0	\$ 0	\$ 0
LTSL .....	\$21,949	\$ 22,097	\$ 0	\$ 6,789

	<b>December 31, 2003</b>			
	<u>Premiums Written</u>	<u>Earned Premiums</u>	<u>Acquisition Costs</u>	<u>Loss and Loss Expenses</u>
QQS .....	\$177,622	\$134,533	\$18,577	\$83,863
CQS .....	\$ 0	\$ 0	\$ 0	\$ 0
LTSL .....	\$ 24,253	\$ 8,865	\$ 0	\$ 0

**Catlin Insurance Company Ltd.**

**Notes to the Consolidated Financial Statements — (Continued)**  
**For the years ended December 31, 2005, 2004 and 2003**

The following balances were outstanding between the Company and the Group or other Group Companies:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Intercompany receivables</b>			
Catlin Underwriting Agencies Limited .....	\$ 0	\$ 0	\$ 5,370
Catlin Holdings Limited(d) .....	7	23,832	0
Catlin Group Limited(d) .....	61,491	11,238	0
Catlin Syndicate Limited(a) .....	<u>9,141</u>	<u>33,319</u>	<u>15,359</u>
Total .....	70,639	68,389	20,452
<b>Funds withheld</b>			
Catlin Syndicate Limited(b) .....	<u>531,151</u>	<u>541,859</u>	<u>298,735</u>
Total Assets .....	<u>\$601,790</u>	<u>\$610,248</u>	<u>\$319,503</u>
<b>Liabilities</b>			
Catlin Syndicate Limited(c) .....	\$ 0	\$ 48,140	\$ 36,571
Catlin Group Limited .....	0	0	4,417
Catlin Holdings Limited .....	0	0	35
Catlin Syndicate Limited Unearned premium .....	0	61,357	114,686
Catlin Syndicate Limited Unpaid losses and loss Expenses . . . .	0	220,898	119,486
Catlin Syndicate Limited Deferred gain .....	27,511	7,196	0
Catlin Syndicate Limited Contract deposits(b).....	<u>200,165</u>	<u>142,842</u>	<u>0</u>
Total Liabilities .....	<u>\$227,676</u>	<u>\$480,433</u>	<u>\$275,195</u>

During the year the Company realized foreign exchange losses (gains) of \$27,930 (2004: \$(4,098), 2003: \$889) on related party transactions.

- (a) The company is a member of a Lloyds third party deposit trust, whereby CICL has agreed to provide the use of certain funds to CSL and to guarantee certain obligations of CSL for a fee. This receivable represents the fee due as at December 31, 2004.
- (b) The Company's quota share contracts with sister companies operate on a funds withheld basis. For details refer to Note 4. The 2004 underwriting year balances relating to the CQS, that was accounted for as a contract deposit, are included in these amounts.
- (c) The payable represents contractual commissions due under the quota share contracts. Refer to Note 4 for more details. These amounts are likely to be settled on a net basis with the funds withheld.
- (d) The amount represents inter-company expenses paid by Catlin Holdings Limited, Catlin Group Ltd. and the Company on behalf of each other. These expenses are repaid when funds are released from closed years of account.

## **ISSUER**

Catlin Insurance Company Ltd.  
Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

## **DIVIDEND DISBURSING AGENT, TRANSFER AGENT AND CALCULATION AGENT**

The Bank of New York  
One Canada Square  
London E14 5AL  
United Kingdom

## **REGISTRAR**

The Bank of New York  
101 Barclay Street,  
7E New York,  
New York 10286  
United States of America

## **LEGAL ADVISERS**

*To the initial purchasers  
as to the laws  
of the United States*

Linklaters  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

*To the Issuer  
as to the laws  
of the United States*

Debevoise & Plimpton LLP  
Tower 42  
Old Broad Street  
London EC2N 1HQ  
United Kingdom

*To the Issuer  
as to the laws  
of Bermuda*

Appleby Hunter Bailhache  
Canons Court  
22 Victoria Street  
P.O. Box HM 1179  
Hamilton HM EX  
Bermuda

## **AUDITORS**

PricewaterhouseCoopers  
Dorchester House  
7 Church Street  
Hamilton HM 11  
Bermuda



CATLIN