

Catlin Group Limited  
Interim Statement 2007

**Catlin Group Limited**

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## Introduction to Catlin

Catlin Group Limited is an international property and casualty insurer and reinsurer, delivering creative risk management solutions and excellent financial security to clients worldwide.

### Highlights

- Income before tax of US\$190 million after acquisition effects; net income of US\$162 million
- Accelerating financial benefits from acquisition in second half of 2007
- Group on track to meet 2007 financial expectations
- Gross premium written of US\$2.0 billion; 29 per cent increase on H1 2006 (combined Catlin 'as reported' and Wellington on US GAAP basis)
- 41 per cent increase in unearned premiums during first half to US\$1.8 billion
- 34 per cent increase in stockholders' equity during first half to US\$2.7 billion
- Integration of Wellington operations completed with virtually no business loss as result of acquisition
- Operating and tax synergies resulting from acquisition greater than expected, post-tax synergy expectation for 2008 increased to at least US\$100 million
- Interim dividend of 8.1 pence (16.4 US cents) per share (30 June 2006: 6.0 pence or 11.3 US cents)
- Further embedded growth benefits will be seen in 2008

### Key Financial Data

US\$000	30 June 2007	30 June 2006 combined <sup>1</sup>	30 June 2006 Catlin as reported
Gross premiums written	<b>1,997,507</b>	1,552,904	903,145
Net premiums written	<b>1,445,671</b>	1,235,915	765,993
Net premiums earned	<b>1,192,212</b>	1,050,152	642,483
Income before income tax expense	<b>190,249</b>	228,035	167,399
Net income	<b>161,720</b>	186,918	147,310
Loss ratio	<b>54.7%</b>	52.8%	49.3%
Expense ratio	<b>37.5%</b>	35.9%	35.4%
Combined ratio	<b>92.2%</b>	88.7%	84.7%
Annualised investment return	<b>4.3%</b>	2.5%	1.7%
Effective tax rate	<b>15.0%</b>	18.0%	12.0%
Annualised return on average equity <sup>2</sup>	<b>15.7%</b>	22.0%	29.1%
Earnings per share (US dollars)	<b>0.65</b>	-	0.92
Interim dividend per share (pence)	<b>8.1</b>	-	6.0
Interim dividend per share (US cents)	<b>16.4</b>	-	11.3

US\$000	30 June 2007	31 December 2006	30 June 2006 Catlin as reported
Total assets	<b>9,730,027</b>	8,806,318	4,403,357
Investments and cash	<b>5,354,159</b>	5,013,709	2,498,911
Stockholders' equity	<b>2,702,581</b>	2,018,280	1,091,214
Unearned premiums	<b>1,819,727</b>	1,290,379	872,898
Book value per share (sterling)	<b>£4.16</b>	£4.12	£3.60
Book value per share (US dollars)	<b>\$8.35</b>	\$8.07	\$6.67

<sup>1</sup> Represents the aggregation of Catlin 'as reported' and Wellington on a US GAAP basis

## Interim Results Statement

For the six months ended 30 June 2007

I am pleased to report the excellent progress made by the Catlin Group during the six months ended 30 June 2007 following the acquisition of Wellington Underwriting plc in December 2006. During the first half Wellington's operations have been integrated with Catlin's. Virtually no business was lost as a result of the acquisition, whilst at the same time we have attracted new underwriting teams to the Group and strengthened our staff overall. Broker and client support for the acquisition has been very favourable.

The Group performed well financially during the first half. Gross written premium volume grew during the period as the Group took advantage of new business opportunities, including business written by Catlin US and our enlarged network of international offices. Losses were relatively benign. Financial performance in the first half was distorted, however, in that it reflects many of the cost impacts of the Wellington acquisition, whilst many of the acquisition's financial benefits will not be seen until future reporting periods. In particular, we will see a greater impact from both the embedded growth resulting from the transaction and synergy benefits.

The acquisition is expected to be accretive to earnings for 2007 and for subsequent years. Operating cost and tax synergies are already being realised, and we now anticipate that total synergies will be at least US\$100 million after tax in 2008.

The rating environment remained strong across the more than 30 classes of business that Catlin underwrites, although average rates decreased for both catastrophe and non-catastrophe classes during the first half. Absent an extreme event, we expect that rates overall will continue to decrease during the remainder of the year and into 2008. However, overall market conditions should remain favourable, and Catlin's strategy of disciplined underwriting combined with controlled growth in carefully selected areas will serve the Group well.

The investment in Catlin US and the international offices, along with the new underwriting teams, will create new growth opportunities for Catlin in 2008 and beyond. We look towards the future with growing optimism.

### Financial Results

The attached financial statements compare the Group's performance in the period ended 30 June 2007 with Catlin's results for the comparable period of 2006. The financial statements do not include Wellington's operations in the first half of 2006 as the acquisition date for accounting purposes was 31 December 2006. However, the Group believes that it is appropriate to compare the Group's first-half 2007 results with a combination of Catlin and Wellington's operations during the first six months of 2006. The table below shows the Group's financial results for the period ended 30 June 2007, compared with both the combination of Catlin and Wellington operations for the comparable period of 2006 ('combined') and Catlin's stand-alone operations for the same period ('as reported'):

US\$m	30 June 2007	30 June 2006 combined	30 June 2006 Catlin as reported
Gross premiums written	<b>\$1,997,507</b>	1,552,904	\$903,145
Net premiums earned	<b>1,192,212</b>	1,050,152	642,483
Investment and other income	<b>133,032</b>	116,339	72,775
Total revenues	<b>1,325,244</b>	1,166,491	715,258
Losses and operating expenses	<b>1,134,995</b>	938,456	547,859
Income before minority interest and income tax expense	<b>190,249</b>	228,035	167,399
Minority interest and income tax expense	<b>(28,529)</b>	(41,117)	(20,089)
Net income	<b>\$161,720</b>	186,918	\$147,310
Loss ratio	<b>54.7%</b>	52.8%	49.3%
Expense ratio	<b>37.5%</b>	35.9%	35.4%
Combined ratio	<b>92.2%</b>	88.7%	84.7%
Effective tax rate	<b>15.0%</b>	18.0%	12.0%
Annualised return on average equity <sup>2</sup>	<b>15.7%</b>	22.0%	29.1%

<sup>1</sup> Represents aggregation of Catlin 'as reported' and Wellington on a US GAAP basis

<sup>2</sup> Excludes preferred shares

## Interim Results Statement (continued)

For the six months ended 30 June 2007

Gross premiums written during the first six months of 2007 amounted to US\$2.0 billion, a 29 per cent increase from the US\$1.6 billion in gross premiums underwritten by Wellington and Catlin combined in the first six months of 2006 and a 121 per cent increase from the US\$903 million underwritten by Catlin alone. If Wellington had owned 100 per cent of its syndicate capacity during 2006, the US\$2.0 billion in gross premium written by the Catlin Group during the first half of 2007 would represent a 7 per cent increase.

Net premiums earned amounted to US\$1.2 billion or approximately 60 per cent of gross premiums written, a considerably lower ratio than normal. This earnings lag is due primarily to two factors: firstly, most premiums earned were written during previous periods, during which time approximately one-third of the premiums written by the Wellington Syndicate were for the benefit of third-party capital providers. Secondly, the Group's reinsurance costs were more concentrated in the early part of the year than usual. The earnings lag also adversely affected loss, expense and combined ratios.

Net income of US\$162 million represented a 10 per cent increase on an as-reported basis (30 June 2006: US\$147 million), but represented a 13 per cent decrease on a combined basis (30 June 2006: US\$187 million).

### Embedded Growth and Acquisition Accounting Effects

The Group's financial results are influenced by a number of factors related to the acquisition of Wellington:

— **100 per cent ownership of Wellington Syndicate 2020.** Up to the end of 2006 when it was acquired by Catlin, approximately one-third of Wellington Syndicate 2020's capacity was attributable to third-party capital providers. The vast bulk of Syndicate 2020's contribution to profits during the first half arises from business written during 2006 and prior. As a result, approximately a third of premiums and associated profits earned by Syndicate 2020 during the first half are for the benefit of that third-party capital; this amounted to profits before tax of US\$65 million in the first half of 2007.

The Group's share of earned premiums and related profits will increase over time as premiums written in 2007 fully earn. At 30 June, unearned premiums reached US\$1.8 billion, a 41 per cent increase compared with US\$1.3 billion at 31 December 2007. These will be earned by the Group beginning in the second half of the year.

Catlin experienced a similar effect in 2003, following the purchase in late 2002 of the capacity supplied by Lloyd's Names to Catlin-managed syndicates. Because of the lag in earned premium growth, profitability was greater in the second half of 2003 as compared with the first half.

— **Names' Quota-Share reinsurance.** As part of Catlin's acquisition of 100 per cent of the capacity of the Wellington Syndicate, some of the third-party capital providers previously supporting the Wellington Syndicate are participating on a 12.5 per cent quota share ('QS') reinsurance of the Catlin Syndicate for 2007 and 2008. There will be an uplift in retained earned premium upon expiry of the QS at the end of 2008. During the first half of 2007, the QS has an impact on both reinsurance ceded and net earned premiums, although it had a minimal effect on profitability as the 2007 underwriting year is not yet contributing significant earned profits. The impact of the QS on the Group's financial performance in future reporting periods will depend on future profitability.

The foregoing factors mean that the Wellington acquisition will provide Catlin with a source of embedded growth over the next several years.

— **Integration costs and acquisition accounting effects.** The Group recorded US\$23 million of integration costs during the first half of 2007, which are included in administrative expenses. In addition, policy acquisition costs include the amortisation of the value of the in-force asset ('VIF') that the Group was required to establish under US Generally Accepted Accounting Principles ('US GAAP'). This asset reflects a valuation of the profit embedded in Wellington's unearned premiums at the time of the acquisition and is larger than the deferred acquisition costs that were written off at the time of the acquisition.

During the first half of 2007, the amount of VIF amortisation was US\$10 million greater than the corresponding deferred acquisition cost amortisation would have been. The VIF will be almost totally amortised by 31 December 2007.

Part of the consideration paid for the Wellington Syndicate capacity owned by third-party capital providers related to the value of the QS reinsurance for 2007 and 2008 referred to above. As this was a non-cash transaction, an offsetting reinsurance creditor liability was created and is being amortised to income during 2007 and 2008. This amortisation increased income before tax by approximately US\$7 million in the first half of 2007.

## Interim Results Statement (continued)

For the six months ended 30 June 2007

US\$m	30 June 2007 as reported	Names' share of Syndicate 2020 for 2005-2006	Names' QQS of Syndicate 2003 for 2007	Integration costs and acquisition accounting effects	30 June 2007 after acquisition adjustments
Gross premiums written	\$1,998	\$48	–	–	\$2,046
Net premiums earned	1,192	183	22	–	1,397
Investment and other income	133	27	–	–	160
Total revenues	1,325	210	22	–	1,557
Loss and operating expenses	(1,135)	(145)	(22)	26	(1,276)
<b>Income before tax</b>	<b>190</b>	<b>65</b>	<b>–</b>	<b>26</b>	<b>281</b>
Income tax expense	(28)	(20)	–	(5)	(53)
<b>Net income</b>	<b>\$162</b>	<b>\$45</b>	<b>\$(0)</b>	<b>\$21</b>	<b>\$228</b>

The Group achieved a 16 per cent annualised return on average equity during the first half of 2007; annualised return on average equity on an adjusted basis would have been 22 per cent (30 June 2006: 22 per cent combined).

### Losses and Expenses

The Group's loss ratio during the first six months of 2007 was 54.7 per cent, (30 June 2006: 52.8 per cent combined, 49.3 per cent as reported). The increase in the loss ratio reflects the weakening rating environment during the period more than an increased level of losses.

Incurred losses of approximately US\$30 million net of reinsurance in the first half resulted from the UK floods in June 2007, divided almost evenly between the Catlin Syndicate and Catlin Bermuda. The Group expects that the UK floods in July will result in approximately US\$10 million in additional losses, which will be reflected in the Group's second-half 2007 results. The losses from both the June and July floods are within the Group's attritional loss expectations.

The Group released US\$15 million from prior year reserves during the first half of 2007 (30 June 2006: US\$4 million as reported). The Group continues to maintain reserves that are conservative relative to internal and external actuaries' best estimates. During the first half, the Catlin reserving approach was applied to the entire portfolio, including legacy Wellington operations.

The expense ratio in the first half was 37.5 per cent (30 June 2006: 35.9 per cent combined basis, 35.4 per cent stand-alone basis). The increased expense ratio reflects the lag in earned premium growth, the Group's substantial investment in the development of Catlin US and the international office network, and the acquisition accounting effects noted earlier. The expense ratio should decrease in the second half as earned premium volume increases.

The Group calculates the expense ratio based on net premiums earned; the following table shows first-half expenses expressed as a percentage of net premiums earned and written:

	H1 2007	H1 2006 combined
Expense ratio as measured by:		
Net premiums earned	37.5%	35.9%
Net premiums written	30.9%	30.5%

Not included in the first-half 2007 expense ratio are US\$23 million in integration costs related to the Wellington acquisition.

The Group's reported combined ratio in the first half of 2007 was 92.2 per cent (30 June 2006: 88.7 per cent combined basis, 84.7 per cent as reported).

### Investments

Net investment income in the first half of 2007 amounted to US\$131 million (30 June 2006: US\$86.6 million combined, US\$52 million as reported). The Group incurred realised and unrealised investment losses of US\$33 million due to rising interest rates during the period. The total annualised return on investment during the period was 4.3 per cent (30 June 2006: 2.5 per cent combined, 1.7 per cent as reported). The first-half 2007 total return on investment excludes premiums and expenses related to the Group's catastrophe swap and a capital loss on the exercise of share options in Aspen Insurance Holdings Limited that were acquired with Wellington.

The Group's balance sheet was strong as at 30 June 2007. Investments and cash increased by 7 per cent during the first half to US\$5.4 billion (31 December 2006: US\$5.0 billion). The vast majority of the Group investments during the period were invested in fixed maturities and cash and equivalents. Included in the portfolio at 30 June 2007 were asset-backed securities with a book value of approximately US\$105 million which have exposure to the sub-prime mortgage market. Of these securities, more than 95 per cent are rated 'AAA' with the balance rated 'AA'. The exposure to the sub-prime market is considered to be insignificant compared with the size of the overall balance sheet.

## Interim Results Statement (continued)

For the six months ended 30 June 2007

The US\$2.6 billion in fixed maturities held by the Group at 30 June 2007 are divided as follows:

US\$m	Government & agency	AAA	AA	A	BBB	Other	Total
Government & agency	34%	–	–	–	–	–	34%
Agency mortgage-backed securities	–	8%	–	–	–	–	8%
Corporate	–	1%	6%	10%	1%	–	18%
Asset-backed securities	–	17%	–	1%	–	–	18%
Mortgage-backed securities	–	21%	1%	–	–	–	22%
<b>Total</b>	<b>34%</b>	<b>47%</b>	<b>7%</b>	<b>11%</b>	<b>1%</b>	<b>–</b>	<b>100%</b>

A review of the Group's long-term investment strategy was completed during the first half of 2007. As a result of this strategy, the Group will continue to invest at least 80 per cent of the portfolio in cash and fixed-income securities, and the review concluded that diversification of up to 20 per cent of assets is appropriate to provide an attractive risk-adjusted return. The implementation of this strategy will begin in the fourth quarter of 2007 and is expected to result in an improvement of 50 basis points in the annual investment return beginning in 2008.

### Integration

The integration of Wellington's operations was largely complete by 30 June 2007. During the first half, all of the remaining members of Wellington's London staff relocated to Catlin's offices, joining the London underwriting team which relocated shortly after the acquisition was finalised in December 2006. In addition, the underwriting staff and all operational departments within the Group have been fully integrated. The only major integration milestone that remains is the full migration of Wellington's historical data to Catlin's systems, which will be completed in 2008.

Integration costs incurred in the first half amounted to US\$23 million, primarily related to personnel, facilities, systems integration and professional fees. A further US\$12 million in integration costs, primarily attributable to data migration and other IT expenses, is expected to be incurred in the second half of 2007.

In January 2007 the Group refinanced the US\$500 million bridge financing facility arranged prior to the Wellington acquisition through the issue by Catlin Bermuda of US\$600 million in non-cumulative perpetual preferred shares. As well as refinancing the bridge financing facility at a favourable cost, the preferred shares qualify as capital for regulatory purposes in Bermuda and, in large part, for rating agencies. Dividends are paid twice annually at a rate of 7.249 per cent. The first dividend was declared in July 2007 and will be reflected in the full-year financial statements.

The acquisition will result in synergies relating to operating costs, tax, reinsurance and investments.

- The operating cost synergies are projected to be US\$22 million on a pre-tax basis in 2007, ahead of the original target of US\$14 million made when the transaction was announced in October 2006. Operating cost synergies in 2008 and subsequent years are forecast at US\$33 million annualised before tax, an increase from the original projection of US\$21 million.
- The tax synergies result from the maintenance of capital in Bermuda. The Group's effective tax rate for the first half of 2007 was 15 per cent, within Catlin's medium-term expectations and a reduction from the 18 per cent combined tax rate in the first half of 2006. A reorganisation of the Group's structure was completed in June 2007 that will maximise capital and income flows throughout the Group to Catlin Bermuda. As a result of this reorganisation, the Group expects the effective tax rate to decrease as increased amounts of income emerge from Catlin Bermuda.
- The reinsurance and investment synergies are expected to be delivered in 2008.

We now expect total annualised after-tax synergies of at least US\$100 million in 2008, a US\$30 million increase compared with the estimate made when the transaction was announced.

The Group expected that some employees would leave the Group following the Wellington acquisition. During the period from 18 December 2006, the date that the acquisition was declared unconditional, through 30 June 2007, 162 employees left Catlin, including 62 agreed departures and 100 resignations. During the same period, the Group added 157 employees, including 57 new underwriting staff. This new staff represents a significant increase in the resources of the Group. Catlin is now in a growth mode, and additional staff – including new underwriting teams – have committed to join Catlin during the second half of 2007. The Group's total headcount – including contractors – was 1,110 at 30 June 2007.

## Interim Results Statement (continued)

For the six months ended 30 June 2007

### Overview of Operations

Catlin's experience in the first half of 2007 demonstrated the benefits of the Wellington acquisition. Virtually no business has been lost as a result of the acquisition, and it has increased the scale of all four Catlin underwriting platforms whilst reinforcing the Group's leadership position in many of the markets in which it operates.

Gross premiums written increased 7 per cent during the period when measured on the basis that assumes that Catlin owned 100 per cent of the Wellington Syndicate at 30 June 2006. This growth was produced by several sources, including business written by Catlin US and the Group's international offices.

The increase in gross premiums written was achieved at attractive pricing levels, although weighted premium rates across the Group's risk portfolio decreased by 4 per cent during the period. Average weighted premium rates for catastrophe-exposed business decreased by 3 per cent, while rates for non-catastrophe business decreased by 5 per cent.

Catlin underwriters continue to refuse to underwrite business that does not offer adequate profitability potential in line with Catlin's strategy of focusing on bottom-line profit rather than top-line growth. As rates soften, the importance of Catlin's technical approach to underwriting, involving embedded actuarial support and active cycle management, increases. This approach includes a well-established and sophisticated rate monitoring process in place since 2001.

Despite the decrease in average weighted premiums rates during the first half, margins during the period remained strong. The table below shows the rate indexes for various categories of business since 1999:

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Energy rating	100%	111%	147%	240%	302%	277%	282%	383%	368%
Property Direct rating	100%	107%	137%	187%	201%	197%	192%	218%	210%
Property Reinsurance	100%	104%	120%	161%	168%	166%	165%	209%	219%
<b>Catastrophe aggregate</b>	<b>100%</b>	<b>107%</b>	<b>135%</b>	<b>189%</b>	<b>208%</b>	<b>202%</b>	<b>201%</b>	<b>246%</b>	<b>246%</b>
Marine and Property	100%	102%	143%	181%	201%	210%	213%	218%	214%
War & Political Risk	100%	102%	131%	230%	240%	226%	212%	207%	194%
Specialty	100%	106%	119%	143%	156%	159%	160%	160%	160%
Casualty	100%	103%	138%	177%	227%	242%	238%	229%	221%
Aerospace	100%	107%	116%	135%	134%	135%	131%	122%	110%
<b>Non-catastrophe aggregate</b>	<b>100%</b>	<b>103%</b>	<b>136%</b>	<b>177%</b>	<b>203%</b>	<b>211%</b>	<b>208%</b>	<b>201%</b>	<b>193%</b>

Rating index base = 100 in 1999

All four Catlin underwriting platforms – the Catlin Syndicate at Lloyd's, Catlin Bermuda, Catlin UK and Catlin US – performed well during the period, and all four produced underwriting contributions. Analysis of the business on a segmental basis can be found in Note 2 to the Consolidated Financial Statements.

The Group continues to seek new business opportunities, both to increase premium volume and profitability and to continue to diversify our book of business.

Absent a major catastrophic event in the latter half of 2007, the Group expects a tougher pricing environment in 2008, but also believes that rates as a whole will continue to be more than adequate and that rates will increase for some classes of business.

### Catlin US

Catlin US was established in 2006 to take advantage of attractive prospects in the US market that would not be available to a UK or a Bermuda-based company. Catlin US has developed into a diversified insurance and reinsurance operation that retains the Catlin Group's strong underwriting culture and focus on gross profitability. The Group intends to enlarge Catlin US through the addition of high-quality, specialist underwriting teams and through controlled, responsible premium growth.

The development of Catlin US accelerated during the first half of 2007. During the period:

- The integration of the small existing Catlin US operations with Wellington's larger US unit was completed;
- Several new specialty classes of business were established through the addition of high-quality underwriting teams;
- The underwriting and financial infrastructure of the unit was strengthened; and
- Catlin US's two owned insurance companies received 'A' (Excellent) financial strength ratings from A.M. Best.

Catlin US originated business (written either by Catlin US's insurance companies or by other Catlin Group underwriting platforms) increased by 42 per cent to US\$136 million (30 June 2006: US\$96 million combined). Of this, US\$29 million (30 June 2006: US\$20 million combined) was written by the Catlin US insurance companies; this is the amount included in the 'Catlin US' segment in the segmental information.

Gross premiums written in the first half and planned for the entire year have been impacted by the decision to terminate a large contractor facility because of concerns over rate adequacy, which reduces estimated gross premiums written for 2007 by \$55 million.

## Interim Results Statement (continued)

For the six months ended 30 June 2007

The Group now anticipates that Catlin US-originated business will total approximately US\$350 million in gross premiums during 2007, down from its previous estimate of approximately US\$450 million. Of that amount, approximately US\$140 million will be direct business, whilst US\$210 million will be reinsurance.

During the period Catlin US established new offices in Cleveland, Ohio, and Lexington, Kentucky, and began underwriting inland marine, equine and product recall insurance. In addition, Catlin US continued to develop the professional liability and primary/excess casualty classes of business which it established during the second half of 2006.

Besides these new specialties, Catlin US also underwrites medical malpractice insurance and insurance for smaller- to medium-size enterprises through general agents. Classes of reinsurance business underwritten by Catlin US include direct and brokerage property facultative, property treaty, marine, and accident and health.

In July, A.M. Best announced that it had assigned a financial strength rating of 'A' (Excellent) to Catlin Insurance Company Inc. and upgraded the financial strength rating of Catlin Specialty Insurance Company Inc. to 'A' (Excellent) from 'A-' (Excellent). The rating assigned to Catlin Insurance Company, an admitted insurer that Catlin acquired in 2006, allowed the company to begin writing business, while the upgraded rating assigned to Catlin Specialty, which was acquired with Wellington, increases the company's standing in the marketplace. Both companies are included in Financial Size Category XIII (\$1.25 billion to \$1.5 billion).

### International Offices

Catlin's network of international offices is an integral part of the Group's strategy to broaden its distribution network and diversify its risk portfolio. During the first half, the Group established four new European offices in Paris, Barcelona, Zurich and Innsbruck. In addition, Catlin established a presence in Shanghai as a participant in Lloyd's Reinsurance Company (China) Ltd, a reinsurance operation owned by Lloyd's which opened for business in April 2007.

Additional underwriting teams and resources have been added to Catlin's existing international offices in Europe, Canada, Asia and Australia. Combined, Catlin's international offices wrote US\$86 million in gross premiums during the first half, putting the group on track to reach its previously announced estimate of US\$150 million (31 December 2006: US\$106 million).

### Dividend

Catlin is committed to providing an attractive return to shareholders through the dividend, and dividend payments are linked to recent trends in the Group's performance as well as to future prospects. The Board of Directors has declared a dividend of 8.1 pence per share (16.4 US cents), payable on 9 November 2007 to shareholders of record at the close of business on 12 October 2007. This payment represents a 35 per cent increase over Catlin's 2006 interim dividend of 6.0 pence (11.3 US cents) per share and is a 5 per cent increase over the implied interim element of the 2006 full-year dividend of 23 pence (44.1 US cents).

### Outlook

The Group has made excellent progress since the acquisition of Wellington, and we are confident that this progress will continue during the second half of 2007 and during 2008. Whilst Catlin faces a tougher market with increased competition, we believe that margins will remain good in the specialty classes of business that we underwrite and in the classes that we are targeting for future growth.

The advantages provided by the Wellington acquisition will continue to increase. We have already benefited from the increased scale of the Group and will continue to do so. The financial benefits of the acquisition will increase during the second half, and we expect the acquisition will be earnings accretive for 2007 and subsequent years. Acquisition-related synergies during 2007 have exceeded our expectations, and we now expect to realise at least US\$100 million in synergies after tax in 2008.

We are on track to meet our financial targets in 2007. We see further growth opportunities in 2008 and beyond, especially in the United States and through our international offices. We will also benefit further in 2008 from the embedded growth provided by the acquisition. In short, Catlin continues to look ahead with confidence.

### Stephen Catlin

Chief Executive

## Consolidated Balance Sheets

As at 30 June 2007 and 2006 and 31 December 2006  
(US dollars in thousands, except share amounts)

	30 June 2007 (unaudited)	31 December 2006 (audited)	30 June 2006 (unaudited)
<b>Assets</b>			
<b>Investments</b>			
Fixed maturities, available-for-sale, at fair value (amortised cost 2007: \$2,593,883; Dec 2006: \$2,685,960; June 2006: \$1,735,282)	<b>\$2,556,901</b>	\$2,669,437	\$1,693,718
Short-term investments, at fair value	<b>78,650</b>	27,565	8,198
Investment in funds	<b>388,403</b>	326,208	–
Investment in associate	<b>2,306</b>	2,617	2,498
<b>Total investments</b>	<b>3,026,260</b>	3,025,827	1,704,414
Cash and cash equivalents	<b>2,327,899</b>	1,987,882	794,497
Securities lending collateral	<b>41,434</b>	130,854	209,137
Accrued investment income	<b>38,738</b>	32,136	17,536
Premiums and other receivables	<b>1,504,006</b>	987,768	768,133
Reinsurance recoverable (net of allowance of 2007: \$66,070; Dec 2006: \$46,791; June 2006: \$27,312)	<b>1,070,381</b>	1,237,531	522,420
Reinsurers' share of unearned premiums	<b>369,739</b>	104,731	112,103
Deferred policy acquisition costs	<b>264,014</b>	144,063	151,920
Value of in-force business acquired	<b>63,559</b>	118,384	–
Intangible assets and goodwill	<b>889,250</b>	868,026	72,491
Derivatives, at fair value	<b>9,924</b>	46,037	–
Other assets	<b>124,823</b>	123,079	50,706
<b>Total assets</b>	<b>\$9,730,027</b>	\$8,806,318	\$4,403,357

### Liabilities, Minority Interest and Stockholders' Equity

<b>Liabilities:</b>			
Reserves for losses and loss expenses	<b>\$4,240,718</b>	\$4,005,133	\$1,950,583
Unearned premiums	<b>1,819,727</b>	1,290,379	872,898
Deferred gain	–	–	1,294
Reinsurance payable	<b>506,347</b>	192,958	138,670
Accounts payable and other liabilities	<b>129,101</b>	363,399	71,275
Notes payable	–	550,290	50,000
Subordinated debt	<b>99,525</b>	99,936	–
Derivatives, at fair value	<b>6,147</b>	619	–
Securities lending payable	<b>41,434</b>	130,854	209,137
Deferred taxes	<b>183,696</b>	153,721	17,559
<b>Total liabilities</b>	<b>\$7,026,695</b>	\$6,787,289	\$3,311,416

Minority interest	<b>751</b>	749	727
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The accompanying notes are an integral part of the consolidated financial statements

## Consolidated Balance Sheets

As at 30 June 2007 and 2006 and 31 December 2006  
(US dollars in thousands, except share amounts)

	30 June 2007 (unaudited)	31 December 2006 (audited)	30 June 2006 (unaudited)
<b>Stockholders' equity:</b>			
Ordinary common shares, par value \$0.01 Authorised 400,000,000; issued and outstanding 2007: 252,950,106; Dec 2006: 238,283,281; June 2006: 163,633,683)	<b>\$2,530</b>	\$2,383	\$1,636
Preferred shares, par value \$0.01 Authorised 600,000; issued and outstanding	<b>589,785</b>	–	–
Additional paid-in capital	<b>1,615,474</b>	1,610,725	791,859
Treasury stock	<b>(4,033)</b>	(6,600)	(552)
Accumulated other comprehensive loss	<b>(12,751)</b>	(26,090)	(46,983)
Retained earnings	<b>511,576</b>	437,862	345,254
<b>Total stockholders' equity</b>	<b>2,702,581</b>	2,018,280	1,091,214
<b>Total liabilities, minority interest and stockholders' equity</b>	<b>\$9,730,027</b>	\$8,806,318	\$4,403,357

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

Approved by the Board of Directors on 5 September 2007

### Stephen Catlin

Director

### Christopher Stooke

Director

## Consolidated statement of Operations (unaudited)

For the six months ended 30 June 2007 and 2006  
(US dollars in thousands, except share amounts)

	2007	2006
<b>Revenues</b>		
Gross premiums written	<b>\$1,997,507</b>	\$903,145
Reinsurance premiums ceded	<b>(551,836)</b>	(137,152)
Net premiums written	<b>1,445,671</b>	765,993
Change in net unearned premiums	<b>(253,459)</b>	(123,510)
Net premiums earned	<b>1,192,212</b>	642,483
Net investment income	<b>131,052</b>	51,922
Net realised losses on investments	<b>(14,299)</b>	(7,633)
Change in fair value of derivatives	<b>(5,528)</b>	-
Net realised gains on foreign currency exchange	<b>10,913</b>	28,314
Other income	<b>10,894</b>	172
<b>Total revenues</b>	<b>1,325,244</b>	715,258
<b>Expenses</b>		
Losses and loss expenses	<b>652,601</b>	316,564
Policy acquisition costs	<b>296,866</b>	157,157
Administrative expenses	<b>150,426</b>	61,790
Other expenses	<b>35,102</b>	12,348
<b>Total expenses</b>	<b>1,134,995</b>	547,859
Income before minority interest and income tax expense	<b>190,249</b>	167,399
Minority interest	<b>8</b>	-
Income tax expense	<b>(28,537)</b>	(20,089)
<b>Net income</b>	<b>\$161,720</b>	\$147,310
<b>Earnings per common share</b>		
Basic	<b>\$0.65</b>	\$0.92
Diluted	<b>\$0.61</b>	\$0.85

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

## Consolidated statement of Changes in Stockholder's Equity and Accumulated Other Comprehensive Income (unaudited)

For the six months ended 30 June 2007 and 2006  
(US dollars in thousands, except share amounts)

	Common stock	Preferred stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
<b>Balance 1 January 2006</b>	\$1,559	\$-	\$721,935	\$-	\$228,986	\$(21,399)	\$931,081
Comprehensive income:							
Net income	-	-	-	-	147,310	-	147,310
Other comprehensive loss	-	-	-	-	-	(25,584)	(25,584)
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>147,310</b>	<b>(25,584)</b>	<b>121,726</b>
Equity raise	77	-	65,154	-	-	-	65,231
Stock compensation expense	-	-	3,975	-	-	-	3,975
Stock options and warrants exercised	-	-	-	-	-	-	-
Dividends declared	-	-	-	-	(30,247)	-	(30,247)
Deferred compensation obligation	-	-	795	-	(795)	-	-
Treasury stock purchased	-	-	-	(552)	-	-	(552)
<b>Balance 30 June 2006</b>	<b>\$1,636</b>	<b>\$-</b>	<b>\$791,859</b>	<b>\$(552)</b>	<b>\$345,254</b>	<b>\$(46,983)</b>	<b>\$1,091,214</b>
<b>Balance 1 January 2007</b>	<b>\$2,383</b>	<b>\$-</b>	<b>\$1,610,725</b>	<b>\$(6,600)</b>	<b>\$437,862</b>	<b>\$(26,090)</b>	<b>\$2,018,280</b>
Comprehensive income:							
Net income	-	-	-	-	161,720	-	161,720
Other comprehensive income	-	-	-	-	-	13,339	13,339
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>161,720</b>	<b>13,339</b>	<b>175,059</b>
Issuance of common shares in connection with							
acquisition of Wellington	117	-	(117)	-	-	-	-
Issuance of preferred shares	-	589,785	-	-	-	-	589,785
Stock compensation expense	-	-	7,515	-	-	-	7,515
Stock options and warrants exercised	30	-	(30)	-	-	-	-
Dividends declared	-	-	-	-	(85,461)	-	(85,461)
Deferred compensation obligation	-	-	2,545	-	(2,545)	-	-
Treasury stock purchased	-	-	-	(2,597)	-	-	(2,597)
Distribution of treasury stock held by Employee Benefit Trust	-	-	(5,164)	5,164	-	-	-
<b>Balance 30 June 2007</b>	<b>\$2,530</b>	<b>\$589,785</b>	<b>\$1,615,474</b>	<b>\$(4,033)</b>	<b>\$511,576</b>	<b>\$(12,751)</b>	<b>\$2,702,581</b>

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

## Consolidated Statements of Cash Flows (unaudited)

For the six months ended 30 June 2007 and 2006  
(US dollars in thousands, except share amounts)

	2007	2006
<b>Cash flows provided by operating activities</b>	<b>\$161,720</b>	\$147,310
Net income		
Adjustments to reconcile net income to net cash provided by operations:		
Amortisation and depreciation	8,008	4,213
Amortisation of discounts of fixed maturities	(3,306)	(7,244)
Net realised losses on investments	7,277	7,633
Changes in operating assets and liabilities		
Reserves for losses and loss expenses	132,131	(176,092)
Unearned premiums	500,515	161,479
Premiums and other receivables	(465,467)	(143,052)
Deferred policy acquisition costs	(116,838)	(16,328)
Value in-force business acquired	56,900	-
Reinsurance payable	287,042	(79,589)
Reinsurance recoverable	184,614	151,499
Reinsurers' share of unearned premiums	(250,295)	(52,145)
Deposit with reinsurer	(221)	(20,583)
Deferred gain	-	(12,408)
Accounts payable and other liabilities	(186,725)	68,732
Investment in funds	(62,277)	-
Deferred tax	23,931	1,456
Other	2,012	70,460
Net cash flows provided by operating activities	<b>279,021</b>	105,341
<b>Cash flows provided by/(used in) investing activities</b>		
Purchases of fixed maturities	(1,593,924)	(644,684)
Purchases of short-term investments	(145,812)	(46,760)
Proceeds from sales of fixed maturities	1,657,937	689,361
Proceeds from maturities of fixed maturities	108,456	5,410
Proceeds from sales of short-term investments	84,837	12,738
Proceeds from maturities of short-term investments	10,422	-
Other investments	(39,845)	-
Purchase of intangible assets	(67)	(3,578)
Purchases of property and equipment	(7,772)	(3,149)
Proceeds from sales of property and equipment	7	72
Investment of securities lending collateral, net	89,537	(209,137)
Net cash flows provided by/(used in) investing activities	<b>163,776</b>	(199,727)

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

## Consolidated Statements of Cash Flows (unaudited)

For the six months ended 30 June 2007 and 2006  
(US dollars in thousands, except share amounts)

	2007	2006
<b>Cash flows provided by operating activities</b>		
Net proceeds from issue of common shares	-	\$65,786
Net proceeds from issue of preference shares	589,785	-
Dividends paid on common shares	(85,459)	(30,037)
Proceeds from notes payable	-	150,000
Repayment of notes payable	(550,290)	(150,000)
Securities lending collateral (repaid)/received	(89,537)	209,137
Purchase of treasury stock	(2,597)	(552)
Net cash flows provided by/(used in) financing activities	<b>(138,098)</b>	244,334
Net increase in cash and cash equivalents	304,699	149,948
Cash and cash equivalents – beginning of period	1,987,882	609,857
Effect of exchange rate changes	35,318	34,692
Cash and cash equivalents – end of period	<b>2,327,899</b>	\$794,497
<b>Supplemental cash flow information</b>		
Taxes paid	\$5,993	\$18
Interest paid	\$7,986	\$1,378
<b>Cash and cash equivalents comprise the following:</b>		
Cash at bank and in hand	\$2,196,930	\$793,232
Cash equivalents	\$130,969	\$1,265

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

## Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2007 and 2006  
(US dollars in thousands, except share amounts)

### 1 General

#### Basis of presentation

The unaudited interim consolidated financial statements have been prepared in accordance with the accounting policies set out in the consolidated financial statements for the year ended 31 December 2006.

#### Business combination

Following the acquisition of Wellington Underwriting plc ('Wellington') on 18 December 2006, the statement of operations reflects the results of the enlarged Group. Comparative figures do not include the results of Wellington prior to the acquisition.

#### Preferred shares

On 18 January 2007, Catlin Group Limited (the 'Group'), through Catlin Insurance Company Limited ('Catlin Bermuda'), issued \$600,000 of non-cumulative perpetual preferred shares at a dividend rate of 7.249 per cent, as described in Note 9.

#### New accounting pronouncements

In June 2006, the Financial Accounting Standards Board ('FASB') issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109", ('FIN 48'). FIN 48 provides guidance on financial statement recognition, measurement and disclosure of uncertain tax positions. FIN 48 is effective for fiscal years beginning after 15 December 2006. The Group adopted the provisions of FIN 48 effective 1 January 2007. There were no changes to the Group's financial position as a result of adopting FIN 48. The Group's tax uncertainties are described in Note 8.

### 2 Segmental information

Following the acquisition of Wellington in December 2006, Catlin has made certain changes to its segmental reporting to reflect the manner in which results are now reviewed by management.

In 2006, Catlin had four reportable segments: Catlin Syndicate Direct, Catlin Syndicate Reinsurance, Catlin Bermuda and Catlin UK. From 2007, Catlin Syndicate Direct and Catlin Syndicate Reinsurance have been combined into a single segment, and Catlin US has been added as an additional reportable segment. Comparative segmental disclosures have been restated accordingly. Catlin US did not generate business in its own right in 2006, and is consequently not shown separately in the comparative disclosures.

In 2006, segment result was based on income or loss before income tax expense. From 2007, segment result is based on net premiums earned less losses, loss expenses and brokerage costs.

In 2006, segment revenue and results included the effects of intra-Group reinsurance. From 2007, segment revenue and results are stated prior to the effects of intra-Group reinsurance and therefore reflect reinsurance with external parties only.

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

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

At 30 June 2007, there were four intra-Group reinsurance contracts in place: the 50% Corporate Quota Share ('CQS'), which cedes Catlin Syndicate risk to Catlin Bermuda, the 60% Quota Share contract ('CUK QS') which cedes Catlin UK risk to Catlin Bermuda and also two 75% Quota Share contract ('CUS QS') which cede Catlin US risk to Catlin Bermuda. The Qualifying Quota Share ("QQS") contract on the 2004 Year of Account and the Long Tail Stop Loss ("LTSL") between Catlin Syndicate and Catlin Bermuda have not been renewed; however, there is still some movement in 2007 on these contracts as the covered years continue to develop. The effects of each of these reinsurance contracts are excluded from segmental revenue and results, as this is the basis upon which the performance of each segment is assessed.

## Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2007 and 2006  
(US dollars in thousands, except share amounts)

Net underwriting contribution by operating segment for the period ended 30 June 2007 is as follows:

	Catlin Syndicate	Catlin Bermuda	Catlin UK	Catlin US	Total
Gross premiums written	\$1,547,246	\$229,483	\$191,306	\$29,472	\$1,997,507
Reinsurance premiums ceded	(460,042)	(46,134)	(41,762)	(3,898)	(551,836)
Net premiums written	1,087,204	183,349	149,544	25,574	1,445,671
Net premiums earned	939,512	94,561	134,902	23,237	1,192,212
Losses and loss expenses	(517,424)	(52,132)	(67,557)	(15,488)	(652,601)
Brokerage and commissions	(209,653)	(15,766)	(33,309)	(3,489)	(262,217)
Net underwriting contribution	\$212,435	\$26,663	\$34,036	\$4,260	\$277,394

Net underwriting contribution by operating segment for the period ended 30 June 2006 is as follows:

	Catlin Syndicate	Catlin Bermuda	Catlin UK	Total
Gross premiums written	\$659,774	\$126,743	\$116,632	\$903,149
Reinsurance premiums ceded	(109,523)	(5,944)	(21,685)	(137,152)
Net premiums written	550,251	120,799	94,947	765,997
Net premiums earned	446,401	94,421	101,662	642,484
Losses and loss expenses	(200,063)	(40,112)	(76,387)	(316,562)
Brokerage and commissions	(92,952)	(16,785)	(23,212)	(132,949)
Net underwriting contribution	\$153,386	\$37,524	\$2,063	\$192,973

Total revenue is the total of net premiums earned as disclosed above, plus net investment income and net realised gain/(loss) on investments, net realised gain/(loss) on foreign currency exchange, and other income. Only net premiums earned are measured and managed on a segmental basis.

### 3 Investments

#### Fixed maturities

The fair values and amortised costs of fixed maturities at 30 June 2007 and 2006 are as follows:

	2007		2006	
	Fair value	Amortised cost	Fair value	Amortised cost
US government and agencies	<b>\$617,871</b>	<b>\$629,194</b>	\$857,888	\$886,125
Non-US governments	<b>261,335</b>	<b>266,343</b>	334,325	340,053
Corporate securities	<b>432,725</b>	<b>437,893</b>	235,395	240,044
Asset-backed securities	<b>470,866</b>	<b>476,441</b>	73,475	74,434
Mortgage-backed securities	<b>774,104</b>	<b>784,012</b>	192,635	194,626
Total fixed maturities	<b>\$2,556,901</b>	<b>\$2,593,883</b>	\$1,693,718	\$1,735,282

The gross unrealised gains and losses related to fixed maturities at 30 June 2007 and 2006 are as follows:

	2007		2006	
	Gross unrealised gains	Gross unrealised losses	Gross unrealised gains	Gross unrealised losses
US government and agencies	<b>\$81</b>	<b>\$11,405</b>	\$-	\$28,238
Non-US governments	<b>42</b>	<b>5,049</b>	42	5,769
Corporate securities	<b>126</b>	<b>5,295</b>	27	4,676
Asset-backed securities	<b>90</b>	<b>5,664</b>	45	1,004
Mortgage-backed securities	<b>613</b>	<b>10,521</b>	59	2,050
Total fixed maturities	<b>\$952</b>	<b>\$37,934</b>	\$173	\$41,737

There were no other than temporary declines in the value of investments in the six months to 30 June 2007 (2006: \$nil). The net realised losses on fixed maturities for the six months ended 30 June 2007 were \$7,777 (2006: \$7,399).

## Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2007 and 2006  
(US dollars in thousands, except share amounts)

Fixed maturities at 30 June 2007, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

	Fair value	Amortised cost
Due in one year or less	\$29,674	\$29,826
Due after one through five years	963,960	974,787
Due after five years through ten years	302,751	312,603
Due after ten years	15,546	16,214
	1,311,931	1,333,430
Asset-backed securities	470,866	476,441
Mortgage-backed securities	774,104	784,012
Total	\$2,556,901	\$2,593,883

### Investment in funds

The Group has classified its investment in funds as a trading security and, accordingly, all realised and unrealised gains and losses on this investment are recorded in net income in the consolidated statements of operations. This investment comprises investments in a fixed maturities fund, an equity fund and a fund of hedge funds. The change in fair value of the investment in funds is recorded as net investment income. The amount of net investment income for the six months ended 30 June 2007 that relates to investment in funds still held at 30 June 2007 was \$14,633 (2006: \$nil).

### Restricted assets

The Group is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. These funds on deposit are available to settle insurance and reinsurance liabilities. The Group also has investments in segregated portfolios primarily to provide collateral or guarantees for Letters of Credit ("LOC"), as described in Note 7. Finally, the Group also utilises trust funds where the trust funds are set up for the benefit of the ceding companies, and generally take the place of LOC requirements.

The total values of these restricted assets by category at 30 June 2007 and 2006 are as follows:

	2007	2006
Fixed maturities, available for sale	\$1,798,998	\$916,148
Short term investments	2,406	8,198
Cash and cash equivalents	644,278	136,752
Total restricted assets	\$2,445,682	\$1,061,098

### Securities lending

The Group participates in a securities lending programme under which certain of its fixed maturity investments are loaned to third parties through a lending agent. Collateral in the form of cash, government securities and letters of credit is required at a minimum rate of 102 per cent of the market value of the loaned securities and is monitored and maintained by the lending agent. The Group had \$40,338 (2006: \$206,997) of securities on loan at 30 June 2007.

### 4 Reserves for losses and loss expenses

The Group establishes reserves for losses and loss expenses, which are estimates of future payments of reported and unreported 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 Group's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in earnings in the period in which the estimates are changed. Management believes it has made a reasonable estimate of the level of reserves at 30 June 2007 and 2006.

The reconciliation of unpaid losses and loss expenses for the six months ended 30 June 2007 and 2006 is as follows:

	2007	2006
Gross unpaid losses and loss expenses, beginning of year	\$4,005,133	\$1,995,485
Reinsurance recoverable on unpaid loss and loss expenses	(996,896)	(575,522)
Net unpaid losses and loss expenses, beginning of year	3,008,237	1,419,963
Net incurred losses and loss expenses for claims related to:		
Current year	667,994	320,765
Prior years	(15,393)	(4,201)
Total net incurred losses and loss expenses	652,601	316,564
Net paid losses and loss expenses for claims related to:		
Current year	(124,013)	(24,047)
Prior year	(475,792)	(271,115)
Total net paid losses and loss expenses	(599,805)	(295,162)
Loss portfolio transfer	172,387	–
Foreign exchange and other	106,486	53,421
Net unpaid losses and loss expenses, end of period	3,339,906	1,494,786
Reinsurance recoverable on unpaid loss and loss expenses	900,812	455,797
Gross unpaid losses and loss expenses, end of period	\$4,240,718	\$1,950,583

## Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2007 and 2006

(US dollars in thousands, except share amounts)

As a result of the changes in estimates of insured events in prior years, the 2007 reserve for losses and loss expenses net of reinsurance recoveries decreased by \$15,393 (2006: decrease of \$4,201). In 2007 and 2006, the decrease was 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.

### Loss portfolio transfer

During the period, Syndicate 2020 closed the 2004 Lloyd's underwriting year of account by way of a Lloyd's reinsurance to close. In closing the 2004 year of account, all outstanding losses were transferred into the 2005 year of account. The Group had an additional ownership of approximately 10 per cent acquired from the external Names in respect of the 2005 year of account, which resulted in an increase in loss reserves of \$172,387; this has been treated as a loss portfolio transfer. To the extent that the future run-off of the 2004 year of account differs from what has been recorded, that development will be recorded in the Consolidated Statement of Operations in the period in which it is incurred.

### 5 Reinsurance

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

	Premiums written	2007 Premiums earned	Premiums written	2006 Premiums earned
Direct	\$1,392,546	\$1,132,765	\$582,153	\$493,821
Assumed	604,961	348,637	320,992	221,717
Ceded	(551,836)	(289,190)	(137,152)	(73,055)
Net premiums	\$1,445,671	\$1,192,212	\$765,993	\$642,483

### 6 Derivative financial instruments

#### Catastrophe swap agreement

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

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

In addition, on 17 November 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, except that the limit payable is \$46,500.

The Cat Swap falls within the scope of Statement of Financial Accounting Standards No. 133 ("Accounting for Derivative Instruments and Hedging Activities" as amended ('SFAS 133')) and is therefore measured in the balance sheet at fair value with any changes in the fair value included in earnings. As at 30 June 2007, the fair value of the Cat Swap is a liability of \$6,147.

#### Other derivative instruments

The Group holds various foreign currency derivatives (forward contracts, caps and collars). As at 30 June 2007, the fair value of the foreign currency derivatives was \$9,924, of which \$6,308 had a remaining term of less than 12 months.

In March 2007 the Group exercised the share options it held with respect to Aspen Insurance Group. Following the exercise of the options to purchase 3,781,120 shares on a cash-less basis at an exercise price of \$22.52 and a share price of \$25.38, Wellington received 426,083 shares. The sale of the shares began 30 March and was completed on 12 April 2007. The resulting sale resulted in a capital loss of \$6,354 from the 31 December 2006 valuation, which has been included in net realised losses on investments in the Consolidated Statements of Operations.

## Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2007 and 2006

(US dollars in thousands, except share amounts)

### 7 Notes payable, debt and financing arrangements

The Group's outstanding debt as at 30 June 2007 and 2006 consisted of the following:

	2007	2006
Notes payable		
Revolving bank facility	\$–	\$50,000
Total notes payable	–	50,000
Subordinated debt		
Variable rate, face amount €7,000, due 15 March 2035	10,133	–
Variable rate, face amount \$27,000, due 15 March 2036	29,021	–
Variable rate, face amount \$31,300, due 15 September 2036	33,791	–
Variable rate, face amount \$9,800, due 15 September 2036	10,580	–
Variable rate, face amount €11,000, due 15 September 2036	16,000	–
Total subordinated debt	99,525	–
Total debt	\$99,525	\$50,000

#### Subordinated debt

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

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

#### Bank facilities

Since November 2003, the Group has participated in a Letter of Credit/Revolving Loan Facility (the 'Club Facility') with three, and since 15 December 2006, four 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 15 December 2006 when the credit available under the Club Facility increased from \$250,000 and £150,000 to \$400,000 and £275,000, respectively. The following amounts were outstanding under the Club Facility as at 30 June 2007:

- Debt outstanding, in the form of a 364-day \$50,000 revolving facility with a one-year term-out option ('Facility A'), was \$nil. Facility A, while not directly collateralised, is secured by floating charges on Group assets and cross-guarantees from material subsidiaries (together with Facilities B and C). This loan, outstanding at 30 June 2006, was repaid including interest on 22 January 2007.
- Clean, irrevocable standby LOCs of \$452,250 (£225,000) are provided to support the Catlin Syndicate's underwriting at Lloyd's ('Facility B'). As at 30 June 2007, the Catlin Syndicate has utilised Facility B and deposited with Lloyd's an LOC in the amount of \$452,250 (£225,000). In the event that the Catlin Syndicate fails to meet its obligations under policies of insurance written on its behalf, Lloyd's could draw down this letter of credit. This LOC has an initial expiry date of 27 November 2010. Collateral of \$80,400 (£40,000) was provided in 2007.
- A two-year \$350,000 standby LOC facility is available for utilisation by Catlin Bermuda and Catlin UK ('Facility C'). It is split into two equal tranches of \$175,000 with the first being fully secured by OECD Government Bonds, US Agencies and or cash discounted at varying rates. The second tranche is unsecured. At 30 June 2007, \$101,617 in LOCs were outstanding, of which \$98,250 are issued for the benefit of Catlin Bermuda, with a single LOC of \$3,367 (£1,675) being for the benefit of Catlin UK. \$31,523 of the LOCs were issued on an unsecured basis.

The terms of the Club Facility require that certain financial covenants be met on a quarterly basis through the filing of Compliance Certificates. These include maximum levels of possible exposures to realistic disaster scenarios for the 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 2006 and increase over time, for items such as consolidated net income in future accounting periods. The Group is in compliance with all covenants during 2007.

## Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2007 and 2006

(US dollars in thousands, except share amounts)

### 8 Taxation

#### Bermuda

Under current Bermuda law neither the Company nor its Bermuda subsidiary, Catlin Bermuda, are required to pay any taxes in Bermuda on their income or capital gains. Both the Company and Catlin Bermuda have received undertakings from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, they will be exempt from taxation in Bermuda until March 2016.

#### United Kingdom

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

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

#### United States

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

#### Other international income taxes

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

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

The income tax expense for the six months ended 30 June 2007 and 2006 is as follows:

	2007	2006
Current tax expense	\$-	\$18,296
Deferred tax expense	<b>28,537</b>	1,793
Income tax expense	<b>\$28,537</b>	\$20,089

#### Unrecognised tax benefits

On adoption of FIN 48 as at 1 January 2007, the total amount of the Group's unrecognised tax benefits was \$11,201. As at 30 June 2007, this amount was \$2,269. All unrecognised tax benefits would affect the effective tax rate if recognised.

The Group does not believe it would be subject to any penalties in any open tax years and has not accrued any such amounts. The Group accrues interest and penalties (if applicable) as income tax expenses in the financial statements.

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

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

## Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2007 and 2006  
(US dollars in thousands, except share amounts)

### 9 Stockholders' equity

The following is a detail of the number and par value of shares authorised, issued and outstanding as at 30 June 2007 and 2006:

	Authorised		Issued and outstanding	
	Number of shares	Par value \$000	Number of shares	Par value \$000
Ordinary common shares, par value \$0.01 per share				
As at 30 June 2007	400,000,000	\$4,000	252,950,106	\$2,530
As at 30 June 2006	250,000,000	\$2,500	163,633,683	\$1,636
Preference shares, par value \$0.01 per share				
As at 30 June 2007	600,000	\$1,000	600,000	\$1,000

The following table outlines the changes in common shares issued and outstanding during 2007 and 2006:

	2007	2006
Balance, 1 January	<b>238,283,281</b>	155,914,616
Exercise of stock options and warrants	<b>2,987,188</b>	14,167
Equity raise	-	7,704,900
Business combination	<b>11,679,637</b>	-
Balance, 30 June	<b>252,950,106</b>	163,633,683

#### Equity raise

On 14 March 2006, the Group placed 7,704,900 new common shares with par value of \$0.01 each at \$8.68 (£5.00) per share, raising \$65,231 net of expenses.

#### Business combination

As at 31 December 2006 acceptances totalling 88 per cent of Wellington's share capital subject to the Group's offer to acquire Wellington ('the Offer') had been settled, resulting in an issuance of 74,414,657 common shares. The remaining Wellington shares subject to the Offer were settled in 2007, resulting in a further issuance of 11,679,637 shares.

### Preferred shares

On 18 January 2007, Catlin Bermuda issued \$600,000 of non-cumulative perpetual preferred shares, par value of \$0.01 per share, with liquidation preference of \$1,000 per share, plus declared and unpaid dividends. Dividends are payable semi-annually in arrears only if, as and when declared by the Board of Directors, on 19 January and 19 July, commencing on 19 July 2007, at a rate of 7.249 per cent on the liquidation preference, up to but not including 19 January 2017. Thereafter, if the shares have not yet been redeemed, dividends will be payable quarterly at a rate equal to 2.975 per cent plus the 3-month LIBOR Rate of the liquidation preference. Catlin Bermuda received proceeds of approximately \$589,785, net of issuance costs, which were used to repay a \$500,000 bridge facility as well as Facility A described in Note 7, and for general corporate purposes. The preference shares do not have a maturity date and are not convertible into or exchangeable into any of Catlin Bermuda's or the Group's other securities.

### Treasury stock

In connection with the Performance Share Plan ('PSP'), at each dividend date, an amount equal to the dividend that would be payable in respect of the shares to be issued under the PSP (assuming full vesting) is paid into an Employee Benefit Trust ('EBT'). The EBT uses these funds to purchase Group shares on the open market. These shares will ultimately be distributed to PSP holders to the extent that the PSP awards vest. During 2007, the Group, through the EBT, purchased 267,400 of the Group's shares, at an average price of \$9.72 (£4.91) per share. The total amount paid of \$2,597 is shown as a deduction to stockholders' equity.

In conjunction with the Wellington acquisition, the Group agreed to compensate legacy Wellington employees that held units in the Wellington EBT. There were no costs associated with the distribution of the Group shares.

### Dividends

On 8 June 2007, the Group paid a final dividend on the common shares relating to the 2006 financial year of \$0.328 (£0.17) per share to shareholders of record at the close of business on 11 May 2007. The total dividend paid for the 2006 financial year was \$0.441 (£0.23) per share.

## Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2007 and 2006

(US dollars in thousands, except share amounts)

### 10 Employee stock compensation schemes

The Group has two stock compensation schemes in place under which awards are outstanding: the PSP, which was adopted in 2004, and a Long Term Incentive Plan ('LTIP'), adopted in 2002. These financial statements include the total cost of stock compensation for both plans, calculated using the fair value method of accounting for stock-based employee compensation. The total cost of the plans expensed in the six months ended 30 June 2007 was \$7,515 (2006: \$3,975).

On 9 March 2007, a total of 2,721,517 options with \$nil exercise price and 518,999 non-vested shares (total of 3,240,516 securities) were granted to Group employees under the PSP. Up to half of the securities will vest on 9 March 2010 and up to half will vest on 9 March 2011, subject to certain performance conditions.

### 11 Earnings per share

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

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

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

- (i) PSP;
- (ii) LTIP; and
- (iii) warrants.

There is no difference between net income attributable to ordinary stockholders and net income attributable to all stockholders for the six months ended 30 June 2007 and 2006.

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

	2007	2006
Weighted average number of shares	<b>247,566,159</b>	160,688,316
Dilution effect of warrants	<b>4,594,329</b>	6,203,859
Dilution effect of stock options and non-vested shares	<b>9,991,124</b>	6,930,990
Dilution effect of stock options and warrants exercised in the period	<b>1,593,878</b>	8,106
Weighted average number of shares on a diluted basis	<b>263,745,490</b>	173,831,271

### Earnings per common share

Basic	<b>\$0.65</b>	\$0.92
Diluted	<b>\$0.61</b>	\$0.85

Options to purchase a further 9,624,670 shares (2006: 9,885,557) under the LTIP were outstanding during the period but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

### 12 Subsequent events

On 17 July 2007, the Board of Catlin Bermuda approved a dividend of \$21,747 to the shareholders of the non-cumulative perpetual preference shares. This dividend was paid on 19 July 2007.

## Independent Review Report to the Board of Directors and the Stockholders of Catlin Group Limited

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises the consolidated interim Balance Sheet as at 30 June 2007 and the related consolidated Statements of Operations, consolidated Statements of Changes in Stockholders Equity and Accumulated Other Comprehensive Income and Statements of Cash Flows for the six months then ended and related notes. This financial information is prepared in conformity with accounting principles generally accepted in the United States of America. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority, which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom or United States of America Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

### PricewaterhouseCoopers

Bermuda  
5 September 2007

## Directors and Advisors

### Board of Directors

Sir Graham Hearne, Chairman  
Stephen Catlin, Chief Executive  
Christopher Stooke, Chief Financial Officer  
Alan Bossin  
Michael Crall  
Jean Claude Damerval  
Michael Eisenson  
Kenneth Goldstein  
Michael Harper  
Michael Hepher  
Alton Irby

### Company Secretary

Daniel Primer

### Registered Office

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### Registrar

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