CATLIN

Catlin Group Limited

Half-yearly Report 2008

Catlin Group Limited is an international property and casualty insurer and reinsurer, writing more than 30 classes of business worldwide through four underwriting platforms and a network of international offices.

Financial and operational highlights

- 4 per cent increase in gross premiums written
- 32 per cent increase in unearned premiums during period
- 12 per cent increase in net underwriting contribution
- Combined ratio of 91 per cent
- Benefits of Wellington acquisition realised
- Strategic premium growth from Catlin Bermuda, Catlin US and international offices
- Highly diversified underwriting portfolio by region and by business class
- Average weighted premium rate decrease of 5 per cent; rate adequacy remains good
- Reduction in expense ratio
- 6 per cent increase in interim dividend to 8.6 pence (16.8 US cents)

Key financial data

US$000	**30 June 2008**	30 June 2007[1]	% change
Gross premiums written	**2,075,070**	1,997,507	4%
Net premiums written	**1,461,426**	1,417,567	3%
Net premiums earned	**1,263,444**	1,184,288	7%
Net underwriting contribution	**309,894**	277,394	12%
Net income before income taxes	**150,206**	190,249	(21%)
Net income available to common stockholders[2]	**110,456**	161,720	(32%)
Earnings per share (US dollars)[2]	**0.44**	0.65	(32%)
Interim dividend per share (pence)	**8.6**	8.1	6%
Interim dividend per share (US cents)	**16.8**	16.4	2%
Loss ratio	**54.6%**	55.1%	
Expense ratio	**36.3%**	37.1%	
Combined ratio	**90.9%**	92.2%	
Annualised investment return	**1.8%**	4.3%	
Effective tax rate	**12.0%**	15.0%	
Annualised return on average equity[3]	**9.1%**	15.7%	
Annualised return on net tangible assets[3]	**13.3%**	24.6%	

	30 June 2008	31 Dec 2007[1]	% change
Total assets	**10,454,817**	9,600,845	9%
Investments and cash	**6,217,167**	6,001,144	4%
Stockholders' equity	**3,000,983**	3,017,004	(1%)
Unearned premiums	**1,981,738**	1,506,899	32%
Book value per share (US dollars)[3]	**9.69**	9.59	1%
Net tangible assets per share (US dollars)[3]	**6.67**	6.57	2%

[1] Certain prior-year amounts have been restated to conform with current year presentation.

[2] Net income available to common shareholders and earnings per share for the period ended 30 June 2008 are stated after payment of US$21.8 million preferred share dividend; no dividend was paid in the comparable period of 2007.

[3] Annualised returns on average equity and net tangible assets as well as book value and NTA per share exclude preferred shares. Per-share amounts exclude treasury shares.

Half-yearly Results Statement

For the six months ended 30 June 2008

The Catlin Group continued its progress during the six months ended 30 June 2008. We have realised the benefits of acquiring Wellington Underwriting plc, including cost synergies, embedded growth and a further diversified portfolio. Net contribution from underwriting operations increased despite a higher frequency of single risk losses compared with recent years. The Group's investment in US, Bermuda and international operations allowed it strategically to increase gross premiums written despite the expected reduction in London wholesale volumes. Competition in the marketplace continued to increase as expected, but average weighted premium rates decreased by 5 per cent, which was less than anticipated and leaves good potential for profit in virtually all areas of the business. Catlin underwriters continued to react to market conditions in a disciplined manner, and the diversification of our portfolio, both by region and by class of business, significantly enhanced our opportunities.

Catlin's performance, however, was negatively impacted by the challenging global investment markets. The total net investment return of 0.9 per cent (1.8 per cent annualised) during the period reflects that environment. As the result of adopting a new accounting standard that brings us in line with our UK peers, unrealised gains and losses on all investments including fixed income securities are now included in the Group's profits.

Financial results

Gross premiums written increased by 4 per cent to US$2.08 billion (30 June 2007: US$2.00 billion). As expected, the volume of London market wholesale business underwritten by the Catlin Syndicate at Lloyd's and Catlin UK decreased during the first half of 2008. This decrease, however, was offset by growth from Catlin Bermuda, Catlin US and the Group's network of international offices.

Net premiums earned increased by 7 per cent during the period to US$1.26 billion (30 June 2007: US$1.18 billion). Catlin is now earning for its own account nearly all of the premiums previously attributable to third-party capacity from Names who supported Wellington's Lloyd's Syndicate. This embedded growth is expected to continue into 2010 following expiry of the quota share reinsurance provided to the Catlin Syndicate by some of Wellington's former third-party capacity providers.

Gross unearned premiums rose by 32 per cent to US$1.98 billion (31 December 2007: US$1.51 billion). This resulted from both the increase in gross premiums written in the first half as well as the embedded growth described above. The Group's net underwriting contribution – net premiums earned less losses and loss expenses and policy acquisition costs – increased by 12 per cent to US$310 million (30 June 2007: US$277 million).

Profit before tax, which decreased 21 per cent to US$150 million (30 June 2007: US$190 million), was significantly impacted by investment performance. Net income available to common stockholders decreased by 32 per cent to US$110 million (30 June 2007: US$162 million). During the first half of 2008, Catlin paid a dividend of US$21.8 million to holders of the Group's non-cumulative perpetual preferred shares issued in January 2007, which reduced first-half 2008 net income available to stockholders; no dividend was paid on these shares during the first half of 2007.

The table below analyses the major components of profit before tax:

US$m	**H1 2008**	H1 2007	% change
Net underwriting contribution	**310**	277	12%
Investment income	**103**	139	(26%)
Realised gains/(losses)	**6**	(8)	–
Unrealised losses	**(55)**	–	–
Net investment income	**54**	131	(59%)
Net other income and expenses	**(214)**	(218)	2%
Profit before tax	**150**	190	(21%)

The Group's annualised return on average equity for the period amounted to 9 per cent (30 June 2007: 16 per cent); annualised return on average net tangible assets amounted to 13 per cent (30 June 2007: 25 per cent).

Balance sheet

Investments and cash increased 4 per cent during the first half of 2008 to US$6.22 billion (31 December 2007: US$6.00 billion). Total assets increased by 9 per cent to US$10.45 billion (31 December 2007: US$9.60 billion).

Whilst stockholders' equity decreased slightly to US$3.00 billion (31 December 2007: US$3.02 billion), book value per share increased by 1 per cent to US$9.69 per share (31 December 2007: US$9.59 per share), and net tangible assets per share increased by 2 per cent to US$6.67 per share (31 December 2007: US$6.57 per share). Effective 30 June 2008, 6.3 million treasury shares have been excluded from the per-share calculations.

The Group expects that capital requirements for planned growth and the assumption of all residual Names' interests can be met from existing resources.

Half-yearly Results Statement

For the six months ended 30 June 2008

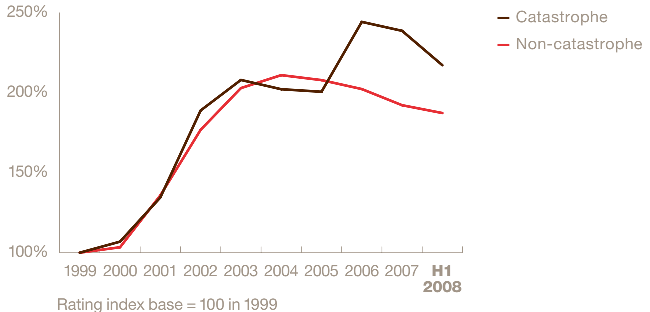
Underwriting operations

Premium rates generally continued to decrease during the first half of 2008, although the overall reduction was not as great as originally expected. Average weighted premium rates across all classes of business underwritten by the Group decreased by 5 per cent during the period (30 June 2007: 4 per cent). Despite the decrease, margins remain good for nearly all classes of business and overall underwriting conditions remain favourable.

The charts on the right show rate indexes for various categories of business from 1999 to 30 June 2008.

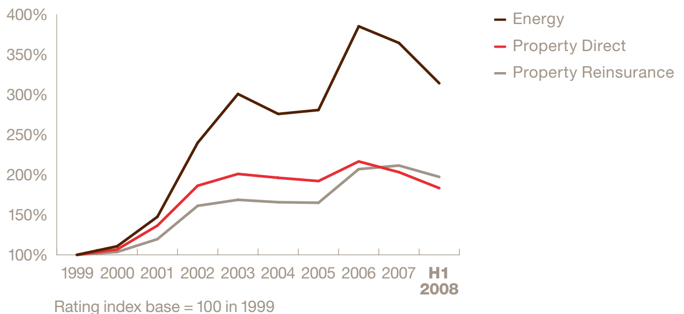
Premium rates are decreasing significantly for certain classes of business, including Energy and Property Direct business, whereas rates for certain other classes of business are showing signs of levelling. For example, Political Risk and Trade Credit rates are rising as a result of the global credit crunch, whilst Satellite insurance market are beginning to impact launch insurance rates.

Rating indexes for catastrophe and non-catastrophe business classes



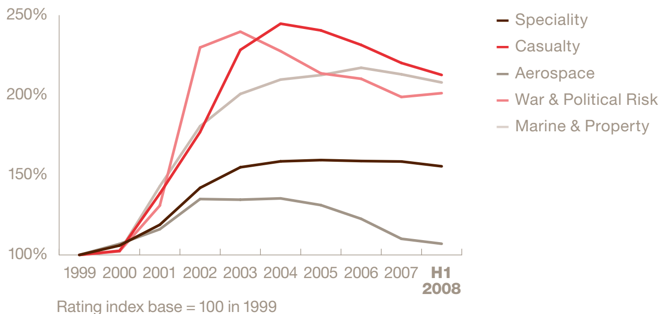
Rating index base = 100 in 1999

Rating indexes for catastrophe business



Rating index base = 100 in 1999

Rating indexes for non-catastrophe business classes



Rating index base = 100 in 1999

Generally, reinsurance business is less competitive than direct insurance: Property Treaty Reinsurance has demonstrated better pricing discipline than Direct Property classes, whilst US Casualty Treaty Reinsurance has been relatively more resilient to competition than Direct US Casualty business.

These rate movements are normal as not all business classes follow the same cycle. The fact that different categories of business within Catlin's portfolio follow different cycles illustrates the benefit of a diversified book of business.

Over the past several years, Catlin has significantly increased the diversification of its risk portfolio. At the same time, the Group has expanded its distribution capabilities through the establishment of Catlin Bermuda, Catlin UK and Catlin US as well as the network of international offices. This strategy has enabled Catlin to continue to increase its overall premium volume even though gross premiums produced by London market wholesale business are decreasing.

The table below shows the breakdown of gross premiums written by source of business during the period as well as the Group's targets for 2008:

US$m	**30 June 2008**	30 June 2007	% change	Current 2008 target
London/UK-originating business	**1,445**	1,546	(7%)	2,385
Catlin Bermuda	**288**	229	26%	325
Catlin US-originating business	**159**	136	26%[1]	400
International offices	**183**	87	110%	290
	2,075	1,998	4%	3,400

[1] Excluding US$10 million in gross premiums written in 2007 relating to programme business which was subsequently cancelled, gross premiums written in H1 2007 amounted to US$126 million, resulting in 26 per cent growth in H1 2008.

Half-yearly Results Statement

For the six months ended 30 June 2008

The decrease in London/UK-originating business was anticipated and reflects Catlin's disciplined approach to underwriting during a challenging market, as underwriters focus on bottom-line profit rather than top-line premium growth.

Catlin Bermuda has increased premium volumes in property reinsurance (catastrophe, risk excess and non-US international business) and in political risk insurance.

The growth in Catlin US's business – which includes business written by Catlin's two US-based insurance companies as well as business written by Catlin US on behalf of the Catlin Syndicate and Catlin UK – reflects the Group's investment in the underwriting platform. Catlin US's growth is expected to continue during the second half of 2008 as the underwriting teams recruited over the past two years become more established.

The Group's international offices have written US$183 million in gross premiums during the first six months of 2008, compared with US$87 million for the same period of 2007. The table below shows the development of gross premiums written by the international office network by region:

US$m	**30 June 2008**	30 June 2007	% change
Asia/Pacific Rim	**50**	30	67%
Guernsey	**24**	25	(4%)
Continental Europe	**83**	16	419%
Canada	**24**	16	50%
South America	**2**	–	–
	183	87	110%

Gross premiums written by the Group's Continental European offices increased by more than 400 per cent compared with the first half of 2007. This reflects the establishment during 2007 of offices in Paris, Zurich, Barcelona and Innsbruck to complement existing offices in Cologne, Antwerp and Genoa. Premiums grew during the first half of 2008 across the region, and particularly in the Paris office where the Group in 2007 recruited a team of highly regarded aviation underwriters.

Catlin's underwriting performance during the period has benefited from the Group's increased scale. The Catlin Syndicate at Lloyd's is the largest in the market in terms of premium capacity, and benefits arise in the London market from the Group's leadership position. In addition, Catlin's other underwriting platforms and the international offices benefit from both the Group's increased scale and the continuing development of a distinctive Catlin brand.

The Group's net underwriting contribution rose by 12 per cent despite an increased frequency of single risk losses compared with recent years. The Group released US$72 million from loss reserves at 30 June 2008 (30 June 2007: US$15 million), which represents 2 per cent of the Group's loss reserves at the beginning of the period (30 June 2007: 1 per cent). This reserve release is in line with the Group's expectations.

Overall, the Group's loss ratio was 55 per cent during the first half of 2008, unchanged from the first half of 2007.

Operating expenses
The Group's expense ratio decreased to 36 per cent (30 June 2007: 37 per cent). This reflects Catlin's emphasis on cost control.

Combined ratio
Overall, the Group's combined ratio amounted to 91 per cent during the first half of 2008 (30 June 2007: 92 per cent).

Investment management
The volatility in financial markets during the first half of 2008 significantly reduced Catlin's investment return compared with the first half of 2007. Total net return on average investments amounted to 0.9 per cent (1.8 per cent annualised) during the period (30 June 2007: 2.2 per cent; 4.3 per cent annualised), whilst total net investment income decreased by 52 per cent to US$54 million (30 June 2007: US$112 million).

A breakdown of total net investment income appears below:

US$m	**30 June 2008**	30 June 2007	% change
Investment income	**103**	139	(26%)
Realised gains/(losses)	**6**	(8)	–
Unrealised losses	**(55)**	–	–
Total investment income	**54**	131	(59%)
Unrealised losses taken to equity	**–**	(19)	–
Total net investment income	**54**	112	(52%)
Total annualised net return on average investments	**1.8%**	4.3%	(58%)

Half-yearly Results Statement

For the six months ended 30 June 2008

Total investment income as reported in the Consolidated Statement of Operations was reduced as a result of the Group's decision to adopt a new accounting standard, FAS 159 – The Fair Value Option for Financial Assets and Financial Liabilities – effective 1 January 2008. Due to the adoption of FAS 159, unrealised gains and losses on fixed income investments now flow directly through the statement of operations – and therefore are included in the Group's profits. The adoption of FAS 159 resulted in US$55 million in unrealised losses on fixed income investments being included in profits for the period ended 30 June 2008; the US$19 million of unrealised losses on fixed income investments incurred in the first half of 2007 did not impact the Group's profits.

The adoption of FAS 159 did not affect the Group's total net investment return as unrealised losses on fixed income securities had already been included in this measurement.

Non-annualised total net investment return was reduced by 0.9 percentage points as a result of unrealised losses on fixed income securities and by 0.3 percentage points as a result of unrealised losses on diversified assets. Not including these unrealised losses, total non-annualised net investment return would have been 2.1 per cent.

Catlin continues to have defensive asset allocation and liquidity levels, with a high proportion of assets being held in cash. At 30 June 2008, 37 per cent of the Group's investment assets were held in cash and cash equivalents. In addition, liquid assets – defined as cash, government securities and fixed income securities with less than six months to maturity – represented 56 per cent of investment assets (US$3.5 billion) at 30 June 2008, compared with the Group's minimum liquidity requirement of 40 per cent.

The Group's investment performance during the first half of 2008 by major asset category is analysed in the table below:

	Average allocation during period	Year-to-date return at 30 June 2008
Fixed maturities	48.1%	0.8%
Global bond fund	2.2%	1.9%
Cash	36.6%	2.1%
Diversified assets		
Equity funds	1.3%	(9.8%)
Internal fund of funds	8.8%	(1.1%)
External funds of funds	3.0%	(1.1%)
	100.0%	0.9%

Fixed income instruments (fixed maturities and global bond fund) accounted for 49 per cent of the Group's investment assets at 30 June 2008. The fixed income instruments are divided into the following categories:

	Percentage of total investments at 30 June 2008
Asset-backed securities	6%
Corporate bonds	10%
Commercial mortgage-backed securities	4%
Agency mortgage-backed securities	4%
Non-agency mortgage-backed securities	4%
Government and agency bonds	19%
Global bond fund	2%
	49%

Eighty per cent of the fixed income securities in the Group's portfolio at 30 June 2008 were either government-issued or AAA-rated. Ninety-six per cent of the Group's asset-backed securities and mortgage-backed securities were either agency-backed or AAA-rated.

The effective duration of the fixed income portfolio at 30 June 2008 was 2.8 years; the portfolio yield to maturity at that date was 4.8 per cent.

Fourteen per cent of investment assets were invested in diversified assets at 30 June 2008. The performance of these assets against the appropriate benchmarks is analysed in the table below:

	Average allocation	Return	Benchmark return[2]
Equity funds			
US equity fund	1.2%	(10.6%)	(12.0%)
Global equity fund[1]	0.1%	(5.6%)	(7.9%)
Internal fund of funds	8.8%	(1.1%)	(2.5%)
External funds of funds	3.0%	(1.1%)	(2.5%)
	13.1%	(2.0%)	(3.4%)

[1] US$50 million was invested in a global equity fund as of 1 June 2008. The one-month performance in June was -5.6 per cent versus the MSCI World which returned -7.9 per cent.

[2] Other indices: US Equity: S&P 500 Total Return index; External and internal fund of funds: HFRI FOF Composite Index.

Half-yearly Results Statement

For the six months ended 30 June 2008

Segmental analysis

Analysis of the net underwriting contribution from Catlin's operating segments can be found in Note 2 to the Financial Statements. For segmental analysis purposes, Catlin US includes only business underwritten by Catlin Insurance Company Inc. and Catlin Specialty Insurance Company Inc. Business underwritten by Catlin US on behalf of the Catlin Syndicate and Catlin UK is included in those segments' results.

All four operating segments produced net underwriting contribution for the period. The contribution provided by Catlin UK, however, was reduced by the higher frequency of single risk losses in that segment during the first half of the year.

Dividend

Catlin remains committed to providing an attractive return to shareholders through the dividend. Dividend payments are linked to trends in the Group's performance as well as to future prospects. The Board of Directors has declared an interim dividend of 8.6 pence per share (16.8 US cents), payable on 7 November 2008 to shareholders of record on 10 October 2008. The 2008 interim dividend represents a 6 per cent increase over the 2007 interim dividend of 8.1 pence per share (16.4 US cents).

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are described in detail on pages 47 to 49 of Catlin's 2007 Annual Report and Accounts. This document is available on the Group's website (www.catlin.com).

The principal risks faced by the Group, as stated in the 2007 Annual Report, include:

— insurance risk;
— investment risk;
— credit risk;
— liquidity risk; and
— operational risk.

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

Conclusion

Management believes that developments over the past several years have significantly strengthened the Group's prospects. These include:

— the acquisition and successful integration of Wellington's operations;
— the continuing embedded growth arising from the acquisition;
— the leadership position, particularly in the London market, that we have achieved;
— the greater diversification of our underwriting portfolio, both by region and by class of business;
— organic growth emerging from Catlin US and our network of international offices;
— the strengthening of our infrastructure and talent base; and
— the development of a distinctive Catlin brand.

These efforts were recognised in a recent survey of 300 London market brokers by Gracechurch Consulting. Ninety per cent of the brokers surveyed said that they had used Catlin's services within the past 12 months, more than any other London market managing agent. Catlin rated the highest among the surveyed managing agents in terms of broker satisfaction, and 60 per cent more brokers said they would recommend Catlin based on quality of service compared with any other managing agent. This survey follows a separate 2007 survey also conducted by Gracechurch Consulting in which Catlin's claims service was rated by brokers as best in the London market.

Catlin is on track to achieve good results for the full year, and we look ahead with confidence.

Stephen Catlin
Chief Executive

Consolidated Balance Sheets

As at 30 June 2008 and 2007 and 31 December 2007
(US dollars in thousands, except share amounts)

	30 June 2008 (unaudited)	31 December 2007 (audited)	30 June 2007 (unaudited)
Assets			
Investments			
Fixed maturities, at fair value (amortised cost 2008: $2,948,846; Dec 2007: $2,928,717; June 2007: $2,593,883)	**$2,916,374**	$2,948,950	$2,556,901
Short-term investments, at fair value	**26,618**	47,605	78,650
Investment in funds, at fair value	**1,005,054**	946,418	388,403
Investment in associate	**2,145**	2,537	2,306
Total investments	**3,950,191**	3,945,510	3,026,260
Cash and cash equivalents	**2,266,976**	2,055,634	2,327,899
Securities lending collateral	**25,114**	44,662	41,434
Accrued investment income	**29,686**	37,274	38,738
Premiums and other receivables	**1,321,128**	1,052,849	1,504,006
Reinsurance recoverable (net of allowance of 2008: $39,192; Dec 2007: $33,460; June 2007: $66,070)	**1,104,898**	1,012,781	1,070,381
Deposit with reinsurer	**5,855**	5,040	1,543
Reinsurers' share of unearned premiums	**499,448**	224,235	369,739
Deferred policy acquisition costs	**321,104**	247,171	264,014
Value of in-force business acquired	**–**	–	63,559
Intangible assets and goodwill	**878,866**	884,428	889,250
Derivatives, at fair value	**2,716**	9,035	9,924
Other assets	**48,835**	82,226	123,280
Total assets	**$10,454,817**	$9,600,845	$9,730,027
Liabilities, Minority Interest and Stockholders' Equity			
Liabilities:			
Reserves for losses and loss expenses	**$4,506,967**	$4,237,525	$4,240,718
Unearned premiums	**1,981,738**	1,506,899	1,819,727
Reinsurance payable	**477,197**	232,004	506,347
Accounts payable and other liabilities	**122,879**	227,228	129,101
Subordinated debt	**101,593**	100,825	99,525
Derivatives, at fair value	**5,945**	9,099	6,147
Securities lending payable	**25,114**	44,662	41,434
Deferred taxes	**232,401**	224,842	183,696
Total liabilities	**$7,453,834**	$6,583,084	$7,026,695
Minority interest	**–**	757	751

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

	30 June 2008 (unaudited)	31 December 2007 (audited)	30 June 2007 (unaudited)
Stockholders' equity:			
Ordinary common stock, par value $0.01 Authorised 400,000,000; issued and outstanding 2008: 255,063,325; (Dec 2007: 253,122,072; June 2007: 252,950,106)	**$2,551**	$2,531	$2,530
Preferred shares, par value $0.01 Authorised, issued and outstanding 600,000; (Dec 2007 and June 2007: 600,000)	**589,785**	589,785	589,785
Additional paid-in capital	**1,634,546**	1,622,876	1,615,474
Treasury stock	**(52,219)**	(5,849)	(4,033)
Accumulated other comprehensive income/(loss)	**17,542**	38,820	(12,751)
Retained earnings	**808,778**	768,841	511,576
Total stockholders' equity	**3,000,983**	3,017,004	2,702,581
Total liabilities, minority interest and stockholders' equity	**$10,454,817**	$9,600,845	$9,730,027

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

Approved by the Board of Directors on 7 August 2008.

Stephen Catlin
Director

Christopher Stooke
Director

Consolidated Statements of Operations (unaudited)

For the six months ended 30 June 2008 and 2007
(US dollars in thousands, except share amounts)

	2008	2007
Revenues		
Gross premiums written	**$2,075,070**	$1,997,507
Reinsurance premiums ceded	**(613,644)**	(579,940)
Net premiums written	**1,461,426**	1,417,567
Change in net unearned premiums	**(197,982)**	(233,279)
Net premiums earned	**1,263,444**	1,184,288
Net investment income	**53,942**	130,736
Change in fair value of derivatives	**(11,057)**	(19,321)
Net realised gains on foreign currency exchange	**7,321**	10,913
Other income	**5,399**	10,894
Total revenues	**$1,319,049**	$1,317,510
Expenses		
Losses and loss expenses	**$689,831**	$652,601
Policy acquisition costs	**263,719**	254,293
Administrative and other expenses	**215,293**	220,367
Total expenses	**1,168,843**	1,127,261
Income before minority interest and income tax expense	**150,206**	190,249
Minority interest	**25**	8
Income tax expense	**(18,025)**	(28,537)
Net income	**$132,206**	$161,720
Preferred share dividend	**21,750**	–
Net income available to common stockholders	**$110,456**	$161,720
Earnings per common share		
Basic	**$0.44**	$0.65
Diluted	**$0.42**	$0.61

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

Consolidated Statements of Changes in Stockholders' Equity

For the six months ended 30 June 2008 and 2007
(US dollars in thousands, except share amounts)

	Common stock	Preferred stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive (loss)/income	Total stockholders' equity
Balance 1 January 2007	$2,383	$–	$1,610,725	$(6,600)	$437,862	$(26,090)	$2,018,280
Comprehensive income:							
Net income	–	–	–	–	161,720	–	161,720
Other comprehensive income	–	–	–	–	–	13,339	13,339
Total comprehensive income	–	–	–	–	161,720	13,339	175,059
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	–	–	–
Balance 30 June 2007	$2,530	$589,785	$1,615,474	$(4,033)	$511,576	$(12,751)	$2,702,581
Balance 1 January 2008	$2,531	$589,785	$1,622,876	$(5,849)	$768,841	$38,820	$3,017,004
Comprehensive income:							
Cumulative effect of adoption of FAS 159	–	–	–	–	14,424	(14,424)	–
Net income	–	–	–	–	110,456	–	110,456
Other comprehensive income	–	–	–	–	–	(6,854)	(6,854)
Total comprehensive income	–	–	–	–	124,880	(21,278)	103,602
Stock compensation expense	–	–	9,935	–	–	–	9,935
Stock options and warrants exercised	20	–	(20)	–	–	–	–
Dividends declared	–	–	–	–	(82,488)	–	(82,488)
Deferred compensation obligation	–	–	2,455	–	(2,455)	–	–
Treasury stock purchased	–	–	–	(47,070)	–	–	(47,070)
Distribution of treasury stock held in Employee Benefit Trust	–	–	(700)	700	–	–	–
Balance 30 June 2008	$2,551	$589,785	$1,634,546	$(52,219)	$808,778	$17,542	$3,000,983

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 2008 and 2007
(US dollars in thousands, except share amounts)

	2008	2007
Cash flows provided by operating activities		
Net income	**$132,206**	$161,720
Adjustments to reconcile net income to net cash provided by operations:		
Amortisation and depreciation	**9,730**	8,008
Amortisation of premiums/(discounts) of fixed maturities	**(2,048)**	(3,306)
Net losses on investments	**49,238**	7,277
Changes in operating assets and liabilities		
Reserves for losses and loss expenses	**287,381**	132,131
Unearned premiums	**508,682**	500,515
Premiums and other receivables	**(169,085)**	(465,467)
Deferred policy acquisition costs	**(75,130)**	(116,838)
Value of in-force business acquired	**–**	56,900
Reinsurance payable	**42,851**	287,042
Reinsurance recoverable	**3,452**	184,614
Reinsurers' share of unearned premiums	**(305,865)**	(250,295)
Deposit with reinsurer	**(844)**	(221)
Accounts payable and other liabilities	**(67,216)**	(186,725)
Investments in funds	**(62,128)**	(62,277)
Deferred taxes	**7,412**	23,931
Other	**2,158**	2,012
Net cash flows provided by operating activities	**360,794**	279,021
Cash flows provided by investing activities		
Purchases of fixed maturities	**(853,638)**	(1,593,924)
Purchases of short-term investments	**(80,583)**	(145,812)
Proceeds from sales of fixed maturities	**749,428**	1,657,937
Proceeds from maturities of fixed maturities	**97,232**	108,456
Proceeds from sales of short-term investments	**36,698**	84,837
Proceeds from maturities of short-term investments	**64,845**	10,422
Other investments	**392**	(39,845)
Purchase of intangible assets	**–**	(67)
Purchases of property and equipment	**(5,188)**	(7,772)
Proceeds from sales of property and equipment	**2**	7
Investment of securities lending collateral, net	**19,549**	89,537
Net cash flows provided by investing activities	**$28,737**	$163,776

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

	2008	2007
Cash flows used in financing activities		
Net proceeds from issue of preferred shares	**$–**	$589,785
Dividends paid on common stock	**(85,900)**	(85,459)
Dividends paid on preferred shares	**(21,750)**	–
Repayment of notes payable	**–**	(550,290)
Securities lending collateral repaid	**(19,549)**	(89,537)
Purchase of treasury stock	**(47,070)**	(2,597)
Net cash flows used in financing activities	**(174,269)**	(138,098)
Net increase in cash and cash equivalents	**215,262**	304,699
Cash and cash equivalents – beginning of period	**2,055,634**	1,987,882
Effect of exchange rate changes	**(3,920)**	35,318
Cash and cash equivalents – end of period	**$2,266,976**	$2,327,899
Supplemental cash flow information		
Taxes (received)/paid	**$(9,459)**	$5,993
Interest paid	**$3,542**	$7,986
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	**$2,212,854**	$2,196,930
Cash equivalents	**$54,122**	$130,969

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

Notes to the Consolidated Financial Statements (unaudited)

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1 General

Basis of presentation

The unaudited interim consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ('US GAAP'), as set out in the consolidated financial statements for the year ended 31 December 2007.

New accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements. Certain reclassifications have been made to prior period amounts to conform to the 2008 presentation.

Effective 1 January 2008, the Group adopted Financial Accounting Standards Board ('FASB') Financial Accounts Standard No 157 ('FAS 157'), Fair Value Measurements. FAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value under US GAAP more consistent and comparable. FAS 157 requires expanded disclosures about the Group's assets and liabilities that are carried at fair value, as described in Note 4. The adoption of FAS 157 did not result in any cumulative-effect adjustment to the Group's opening retained earnings at 1 January 2008, or any material impact on our results of operations, financial position or liquidity.

Effective 1 January 2008, the Group adopted FASB-issued Financial Accounting Standard No 159, The Fair Value Option for Financial Assets and Financial Liabilities ('FAS 159'). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Group elected to adopt the FAS 159 fair value option to its available-for-sale investment portfolio. On adoption of FAS 159, net unrealised gains of $14,424, after allowing for tax effects, have been reclassified from accumulated other comprehensive income to opening retained earnings as at 1 January 2008.

2 Segmental information

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

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

At 30 June 2008 there were four intra-Group reinsurance contracts in place: the 50 per cent Corporate Quota Share ('CQS'), which cedes Catlin Syndicate risk to Catlin Bermuda, the 60 per cent Quota Share contract ('CUK QS') which cedes Catlin UK risk to Catlin Bermuda and also two 75 per cent Quota Share contracts ('CUS QS') which cede Catlin US risk to Catlin Bermuda. The Long Tail Stop Loss ('LTSL') between Catlin Syndicate and Catlin Bermuda has not been renewed since 2006; however, there is still some movement in 2008 on this contract as the covered years of account 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.

Net underwriting contribution by operating segment for the period ended 30 June 2008 is as follows:

	Catlin Syndicate	Catlin Bermuda	Catlin UK	Catlin US	**Total**
Gross premiums written	$1,494,465	$288,412	$239,066	$53,127	**$2,075,070**
Reinsurance premiums ceded	(500,812)	(66,354)	(40,926)	(5,552)	**(613,644)**
Net premiums written	993,653	222,058	198,140	47,575	**1,461,426**
Net premiums earned	875,389	132,129	215,121	40,805	**1,263,444**
Losses and loss expenses	(469,806)	(34,698)	(161,069)	(24,258)	**(689,831)**
Policy acquisition costs	(176,302)	(30,403)	(46,921)	(10,093)	**(263,719)**
Net underwriting contribution	$229,281	$67,028	$7,131	$6,454	**$309,894**

Notes to the Consolidated Financial Statements (unaudited)

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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	(488,146)	(46,134)	(41,762)	(3,898)	(579,940)
Net premiums written	1,059,100	183,349	149,544	25,574	1,417,567
Net premiums earned	931,588	94,561	134,902	23,237	1,184,288
Losses and loss expenses	(517,424)	(52,132)	(67,557)	(15,488)	(652,601)
Policy acquisition costs	(201,729)	(15,766)	(33,309)	(3,489)	(254,293)
Net underwriting contribution	$212,435	$26,663	$34,036	$4,260	$277,394

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

3 Investments

Fair value option

As described in Note 1, the Group elected to apply the fair value option to its available-for-sale investment portfolio with effect from 1 January 2008. Fixed maturity and short-term investments reported at 30 June 2008 are carried at fair value with gains and losses reported in income. The comparative balances as at 30 June 2007 represent securities classified as available-for-sale.

Fixed maturities

The fair values and amortised costs of fixed maturities at 30 June 2008 and 2007 are as follows:

	2008		2007	
	Fair value	**Amortised cost**	Fair value	Amortised cost
US government and agencies	**$686,608**	**$673,306**	$617,871	$629,194
Non-US governments	**519,065**	**523,588**	261,335	266,343
Corporate securities	**597,052**	**602,637**	432,725	437,893
Asset-backed securities	**344,908**	**352,081**	470,866	476,441
Mortgage-backed securities	**768,741**	**797,234**	774,104	784,012
Total fixed maturities	**$2,916,374**	**$2,948,846**	$2,556,901	$2,593,883

Following the application of the fair value option, all gains and losses on fixed maturities have been recorded in income for the six months to 30 June 2008. In the six months to 30 June 2007, only realised gains on fixed maturities were recorded in income. There were no losses in the six months to 30 June 2007 arising from other than temporary declines in the value of available-for-sale investments.

Fixed maturities at 30 June 2008, 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	$96,084	$95,364
Due after one through five years	1,398,088	1,396,562
Due after five years through ten years	289,575	288,619
Due after ten years	18,978	18,986
	1,802,725	1,799,531
Asset-backed securities	344,908	352,081
Mortgage-backed securities	768,741	797,234
Total	$2,916,374	$2,948,846

Investment in funds

The Group has classified its investments in funds as trading securities and, accordingly, all realised and unrealised gains and losses on these investments are recorded in net income in the consolidated statements of operations. These investments comprise investments in a fixed maturities fund, equity funds, internal fund of funds, external funds of hedge funds and cash on deposit with fund managers.

The change in fair value of the investment in funds is recorded in net investment income in the statements of operations. The portion of gains/(losses) for the six months ended 30 June 2008 that relates to investments in funds still held at 30 June 2008 was a loss of $14,407 (2007: gain of $14,633).

Values of investments in funds by category at 30 June 2008 and 2007 are as follows:

	2008	2007
Equity funds	**$121,235**	$110,891
Internal fund of funds	**555,959**	–
External funds of funds	**194,025**	154,406
Fixed income funds	**133,835**	123,106
Total investments in funds	**$1,005,054**	$388,403

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Net investment income

The components of net investment income for the periods ended 30 June 2008 and 2007 are as follows:

	2008	2007
Interest income	**$119,846**	$124,878
Net (losses)/gains on investment in funds	**(14,407)**	14,633
Net losses on fixed maturities and short-term investments	**(49,238)**	–
Net realised losses on investments available-for-sale	**–**	(7,945)
Equity in income of associate	**288**	449
Gross investment income	**56,489**	132,015
Investment expenses	**(2,547)**	(1,279)
Net investment income	**$53,942**	$130,736

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 ('LOCs'), as described in Note 8. 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 2008 and 2007 are as follows:

	2008	2007
Fixed maturities, available-for-sale	**$2,098,943**	$1,798,998
Short-term investments	**17,597**	2,406
Cash and cash equivalents	**833,940**	644,278
Total restricted assets	**$2,950,480**	$2,445,682

4 Fair value measurement

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the 'exit price') in an orderly transaction between market participants at the measurement date. In determining fair value, management uses various valuation approaches, including market and income approaches. FAS 157 establishes a hierarchy for inputs used in measuring fair value that maximises the use of observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs be used when available. The three levels of the FAS 157 hierarchy are described below.

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

  Assets and liabilities utilising Level 1 inputs include investments in equity funds.

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

  Assets and liabilities utilising Level 2 inputs include: US government and agency securities; non-US government obligations, corporate and municipal bonds, mortgage-backed securities ('MBS') and asset-backed securities ('ABS') to the extent that they are not identified as Level 3 items; over-the-counter ('OTC') derivatives (e.g. foreign currency options and forward contracts); and hedge fund investments with few restrictions on redemptions or new investors.

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

  Assets and liabilities utilising Level 3 inputs include: insurance and reinsurance derivative contracts; hedge funds with significant redemption restrictions; sub-prime and Alt-A securities where the unobservable inputs reflect individual assumptions and judgements regarding ultimate delinquency and foreclosure rates and estimates regarding the likelihood and timing of events of defaults.

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

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Assets and liabilities measured at fair value on a recurring basis

The table below shows the values at 30 June 2008 of assets and liabilities measured at fair value on a recurring basis, analysed by the level of inputs used.

	Balance as at 30 June 2008	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
Fixed maturities	$2,916,374	$–	$2,857,655	$58,719
Short-term investments	26,618	–	26,618	–
Investments in funds	1,005,054	121,235	632,546	251,273
Derivative assets	2,716	–	2,716	–
Total assets at fair value	$3,950,762	$121,235	$3,519,535	$309,992
Liabilities				
Derivative liabilities	$5,945	$–	$–	$5,945

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

	Fixed maturities	Investments in funds	Derivative liabilities
Beginning balance	$82,370	$241,121	$(9,099)
Total (losses)/gains included in income	(9,600)	(5,985)	3,154
(Dispositions)/purchases	(14,051)	16,137	–
Ending balance	$58,719	$251,273	$(5,945)
Amount of (losses)/gains relating to balances still held at the period end	$(9,459)	$(5,985)	$3,154

Gains and losses on fixed maturities are recorded in the statement of operations in net investment income. Gains and losses on derivative liabilities are recorded in change in fair value of derivatives.

Fair value option

The Group has elected to adopt the FAS 159 fair value option to its fixed maturities, short-term investments and cash equivalents. In the period to 30 June 2008, losses of $49,238 have been included in income in relation to changes in the fair values of these assets. These losses are reported in net investment income.

5 Reserves for losses and loss expenses

The Group establishes reserves for losses and loss expenses, which are estimates of future payments of reported and unreported 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 judgements. The Group's estimates and judgements may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in earnings in the period in which the estimates are changed. Management believes they have made a reasonable estimate of the level of reserves at 30 June 2008 and 2007.

The reconciliation of unpaid losses and loss expenses for the six months ended 30 June 2008 and 2007 is as follows:

	2008	2007
Gross unpaid losses and loss expenses, beginning of year	**$4,237,525**	$4,005,133
Reinsurance recoverable on unpaid loss and loss expenses	**(860,106)**	(996,896)
Net unpaid losses and loss expenses, beginning of year	**3,377,419**	3,008,237
Net incurred losses and loss expenses for claims related to:		
Current period	**761,433**	667,994
Prior periods	**(71,602)**	(15,393)
Total net incurred losses and loss expenses	**689,831**	652,601
Net paid losses and loss expenses for claims related to:		
Current period	**(43,617)**	(124,013)
Prior periods	**(490,708)**	(475,792)
Total net paid losses and loss expenses	**(534,325)**	(599,805)
Loss portfolio transfer	**4,384**	172,387
Foreign exchange and other	**7,488**	106,486
Net unpaid losses and loss expenses, end of period	**3,544,797**	3,339,906
Reinsurance recoverable on unpaid loss and loss expenses	**962,170**	900,812
Gross unpaid losses and loss expenses, end of period	**$4,506,967**	$4,240,718

As a result of the changes in estimates of insured events in prior periods, the 2008 reserve for losses and loss expenses net of reinsurance recoveries decreased by $71,602 (2007: decrease of $15,393). The decrease in reserves relating to prior years is due to reductions in expected ultimate loss costs and reductions in uncertainty surrounding the quantification of the net cost of claim events.

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Loss portfolio transfer

During the period, Syndicate 2020 closed the 2005 Lloyd's underwriting year of account by way of a Lloyd's reinsurance to close. In closing the 2005 year of account, all outstanding losses were transferred into the 2006 year of account. The Group had an additional ownership of approximately 0.59 per cent acquired from the external Names in respect of the 2006 year of account, which resulted in an increase in loss reserves of $4,384; this has been treated as a loss portfolio transfer. In the prior period, the 2004 Lloyd's underwriting year of account was closed, resulting in an increase in loss reserves of $172,387. To the extent that the future run-off of the 2005 and 2004 years of account differ from what has been recorded, that development will be recorded in the Consolidated Statements of Operations in the period that it is incurred.

6 Reinsurance

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

	2008		2007	
	Premiums written	**Premiums earned**	Premiums written	Premiums earned
Direct	**$1,420,047**	**$1,220,446**	$1,392,546	$1,132,765
Assumed	**655,023**	**381,514**	604,961	348,637
Ceded	**(613,644)**	**(338,516)**	(579,940)	(297,114)
Net premiums	**$1,461,426**	**$1,263,444**	$1,417,567	$1,184,288

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

7 Derivative financial instruments

Catastrophe swap agreements

Newton Re

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

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

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

Bay Haven

On 17 November 2006, Catlin Bermuda entered into a 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 Bay Haven cat swap responds to certain covered risk events occurring during a three-year period. No payment will be made for the first three such risk events. Bay Haven will pay 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.

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

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

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

Values of catastrophe swap agreements

The Newton Re and Bay Haven cat swaps fall within the scope of FAS 133 and are therefore measured in the balance sheet at fair value with any changes in the fair value included in earnings. As at 30 June 2008, the fair value of the cat swaps is a liability of $5,945 (2007: $6,147). As there is no quoted market value available for these derivatives, the fair values are determined by management based on the valuation of the notes issued by Newton Re and Bay Haven. The fair value of the Newton Re cat swap is derived from indicative prices for the Class A and Class B notes issued by Newton Re. The fair value of the Bay Haven cat swap is determined using an internal model that takes into account changes in the market for catastrophe reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date.

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Other derivative instruments

The Group holds various foreign currency derivatives (forward contracts, caps and collars). As at 30 June 2008, the fair value of the foreign currency derivatives was an asset of $2,716 (2007: $9,924), of which $2,716 (2007: $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 recorded in change in fair value of derivatives.

8 Subordinated debt and financing arrangements

The Group's outstanding subordinated debt as at 30 June 2008 and 2007 consisted of the following:

	2008	2007
Variable rate, face amount €7,000, due 15 March 2035	**$11,518**	$10,133
Variable rate, face amount $27,000, due 15 March 2036	**28,516**	29,021
Variable rate, face amount $31,300, due 15 September 2036	**33,168**	33,791
Variable rate, face amount $9,800, due 15 September 2036	**10,385**	10,580
Variable rate, face amount €11,000, due 15 September 2036	**18,006**	16,000
Total subordinated debt	**$101,593**	$99,525

Subordinated debt

On 12 May 2006 Catlin Underwriting (formerly 'Wellington Underwriting plc') 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 Catlin Underwriting issued $31,300, $9,800 and €11,000 of variable rate unsecured subordinated notes. The notes are subordinated to the claims of all Senior Creditors, as defined in the agreement. The notes pay interest based on the rate on three-month deposits in US dollars plus a margin of 310 basis points for the $31,300 notes and 300 basis points for the other two notes. Interest is payable quarterly in arrears. The notes are each redeemable at the discretion of the issuer on 15 September 2011.

Bank facilities

Since November 2003, the Group has participated in a Letter of Credit/Revolving Loan Facility (the 'Club Facility'). The Club Facility has been varied, amended and restated since it was originally entered into, most recently on 15 December 2006, when the credit available under the Club Facility increased from $250,000 and £150,000 to $400,000 and £275,000, respectively. The facility initially included three banks; on 15 December 2006 it increased to four banks and on 25 January 2007 it expanded to seven banks. Each bank participates equally in the Club Facility. The Club Facility is composed of three tranches as detailed below. The following amounts were outstanding under the Club Facility as at 30 June 2008:

— A 364-day $50,000 revolving facility with a one-year term-out option ('Facility A') is available for utilisation by the Group. 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 $495,000 (£250,000) are provided to support the Catlin Syndicate's underwriting at Lloyd's ('Facility B'). As at 30 June 2008, the Catlin Corporate Names and Syndicate had utilised Facility B and deposited with Lloyd's 13 LOCs in the amount of $495,000 (£250,000). In the event that the Catlin Syndicate fails to meet its obligations under policies of insurance written on its behalf, Lloyd's could draw down this letter of credit. This LOC has an initial expiry date of 20 November 2011. Collateral of $79,200 (£40,000) was provided in 2008.

— 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 2008, $158,397 in LOCs were outstanding, of which $155,064 are issued for the benefit of Catlin Bermuda, with a single LOC of $3,333 (£1,675) being for the benefit of Catlin UK. $80,132 of the LOCs were issued on an unsecured basis.

The terms of the Club Facility require that certain financial covenants be met on a quarterly basis through the filing of Compliance Certificates. These include maximum levels of possible exposures to realistic disaster scenarios for the Group, as well as requirements to maintain minimum Tangible Net Worth and Adjusted Tangible Net Worth levels. The Group is in compliance with all covenants during 2008.

A second LOC facility administered by Citibank on behalf of Lloyd's acting for the Lloyd's Syndicates had LOCs totalling $5,842 outstanding at 30 June 2008. These LOCs are fully secured.

9 Taxation

Bermuda

Under current Bermuda law neither the Company nor its Bermuda subsidiary, Catlin Bermuda, is required to pay any taxes in Bermuda on 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.

Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2008 and 2007
(US dollars in thousands, except share amounts)

United Kingdom

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

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

United States

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

Other international income taxes

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

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

The income tax expense for the six months ended 30 June 2008 and 2007 is as follows:

	2008	2007
Current tax expense	**$–**	$–
Deferred tax expense	**18,025**	28,537
Income tax expense	**$18,025**	$28,537

The Group records income taxes for the period based on the estimated effective annual rates for the years ending 31 December 2008 and 2007.

Unrecognised tax benefits

As at 30 June 2008, the Group's unrecognised tax benefits amounted to $9,300 (2007: $2,269). All unrecognised tax benefits would affect the effective tax rate if recognised. The Group accrues interest and penalties (if applicable) as income tax expenses in the financial statements.

10 Stockholders' equity

The following is a detail of the number and par value of shares authorised, issued and outstanding as at 30 June 2008 and 2007:

	Authorised		Issued and outstanding	
	Number of shares	Par value $000	Number of shares	Par value $000
Ordinary common stock, par value $0.01 per share				
As at 30 June 2008	400,000,000	$4,000	255,063,325	$2,551
As at 30 June 2007	400,000,000	$4,000	252,950,106	$2,530
Preferred shares, par value $0.01 per share				
As at 30 June 2008 and 2007	600,000	$6	600,000	$6

The following table outlines the changes in common stock issued and outstanding during 2008 and 2007:

	2008	2007
Balance, 1 January	**253,122,072**	238,283,281
Exercise of stock options and warrants	**1,941,253**	2,987,188
Business combination	**–**	11,679,637
Balance, 30 June	**255,063,325**	252,950,106

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 three-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 8, and for general corporate purposes. The preferred shares do not have a maturity date and are not convertible into or exchangeable into any of Catlin Bermuda's or the Group's other securities.

Treasury stock

In connection with the Performance Share Plan ('PSP'), at each dividend date, an amount equal to the dividend that would be payable in respect of the 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.

Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 30 June 2008 and 2007
(US dollars in thousands, except share amounts)

In March 2008, the Group also purchased shares that will be used to satisfy the 2008 PSP awards if and when they vest and become exercisable from March 2011 onward. During 2008, the Group, through the EBT, purchased 5,700,608 of the Group's shares, at an average price of $8.16 (£4.10) per share. The total amount paid of $47,070 is shown as a deduction to stockholders' equity.

Dividends

Dividends on common stock

On 23 May 2008 the Group paid a final dividend on the common stock relating to the 2007 financial year of $0.338 (£0.17) per share to shareholders of record at the close of business on 25 April 2008. The total dividend paid for the 2007 financial year was $0.502 (£0.251) per share.

Dividends on preferred shares

On 19 January 2008 Catlin Bermuda paid a dividend of $21,750 to the shareholders of the non-cumulative perpetual preferred shares.

11 Employee stock compensation schemes

The Group has two stock compensation schemes in place under which awards are outstanding: the PSP, 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.

On 31 March 2008 a total of 3,944,268 options with $nil exercise price and 1,129,047 non-vested shares (total of 5,073,315 securities) were granted to Group employees under the PSP. Up to half of the securities will vest on 9 March 2011 and up to half will vest on 9 March 2012, subject to certain performance conditions.

The total cost of the plans expensed in the six months ended 30 June 2008 was $9,935 (2007: $7,515).

Employee Share Plans

The UK Savings-Related Share Option Scheme ('SharesaveUK' or 'plan') was approved by the shareholders of the Group on 14 May 2008. The plan is administered by an external party. The employees that met minimum employment criteria of the designated participating subsidiaries were eligible for participation in the plan. Eligible employees in the UK could elect to invest up to a maximum of £0.25 per month for the full three-year period of the plan. Employees who participate in the SharesaveUK can, at the end of the plan period, purchase the Group's shares at a 20 per cent discount on the market price at the grant date of the award. At 30 June 2008, a total of 551,742 shares have been awarded at an option price of £3.18 per share.

The US Employee Stock Purchase Plan ('ESPP' or 'plan') was also approved by the shareholders of the Group on 14 May 2008 and is administered by an external party. Employees in the US that met minimum employment criteria of the designated participating subsidiaries were eligible for participation in the plan. Employees could contribute up to 15 per cent of their base salary, subject to a maximum of $21.25, during the approximately 12-month offering period towards the purchase of the Group's shares, up to a total fair market value of $25 in each plan year. For the 2008-2009 plan year, employees who participate in the ESPP could purchase the Group's shares at a 15 per cent discount on the fair market price at the grant date. At 30 June 2008, employees enrolled to purchase a total of 70,103 shares for the 2008-2009 plan year at a share price of £3.58 per share.

12 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:

— PSP;
— LTIP; and
— Warrants.

Income available to common stockholders is arrived after deducting preferred share dividends of $21,750 (2007: nil).

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

	2008	2007
Weighted average number of shares	**250,949,021**	247,566,159
Dilution effect of warrants	**2,183,575**	4,594,329
Dilution effect of stock options and non-vested shares	**8,888,158**	9,991,124
Dilution effect of stock options and warrants exercised in the period	**768,534**	1,593,878
Weighted average number of shares on a diluted basis	**262,789,288**	263,745,490

Earnings per common share		
Basic	**$0.44**	$0.65
Diluted	**$0.42**	$0.61

In 2007, there were options to purchase a further 9,624,670 shares under the LTIP outstanding during the period that 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. In 2008, the balance was nil.

13 Subsequent events

The Board of Catlin Bermuda approved a dividend of $21,750 to the shareholders of the non-cumulative perpetual preferred shares. This dividend was paid on 21 July 2008.

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

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the Half-yearly Report for the six months ended 30 June 2008 which comprises the Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Changes in Stockholders Equity, Consolidated Statements of Cash Flows and related notes. We have read the other information contained in the Half-yearly Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' Responsibilities

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

The condensed set of financial statements included in the Half-yearly Report has been prepared in accordance with accounting principles generally accepted in the United States of America.

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-yearly Report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers
Bermuda

7 August 2008

Statement of Responsibility

We confirm that to the best of our knowledge:

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

By order of the Board.

Stephen Catlin
Chief Executive

Christopher Stooke
Chief Financial Officer

7 August 2008

Directors and Advisors

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Stephen Catlin, Chief Executive
Christopher Stooke, Chief Financial Officer
Alan Bossin
Michael Crall
Jean Claude Damerval
Michael Eisenson
Kenneth Goldstein
Michael Harper
Michael Hepher
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