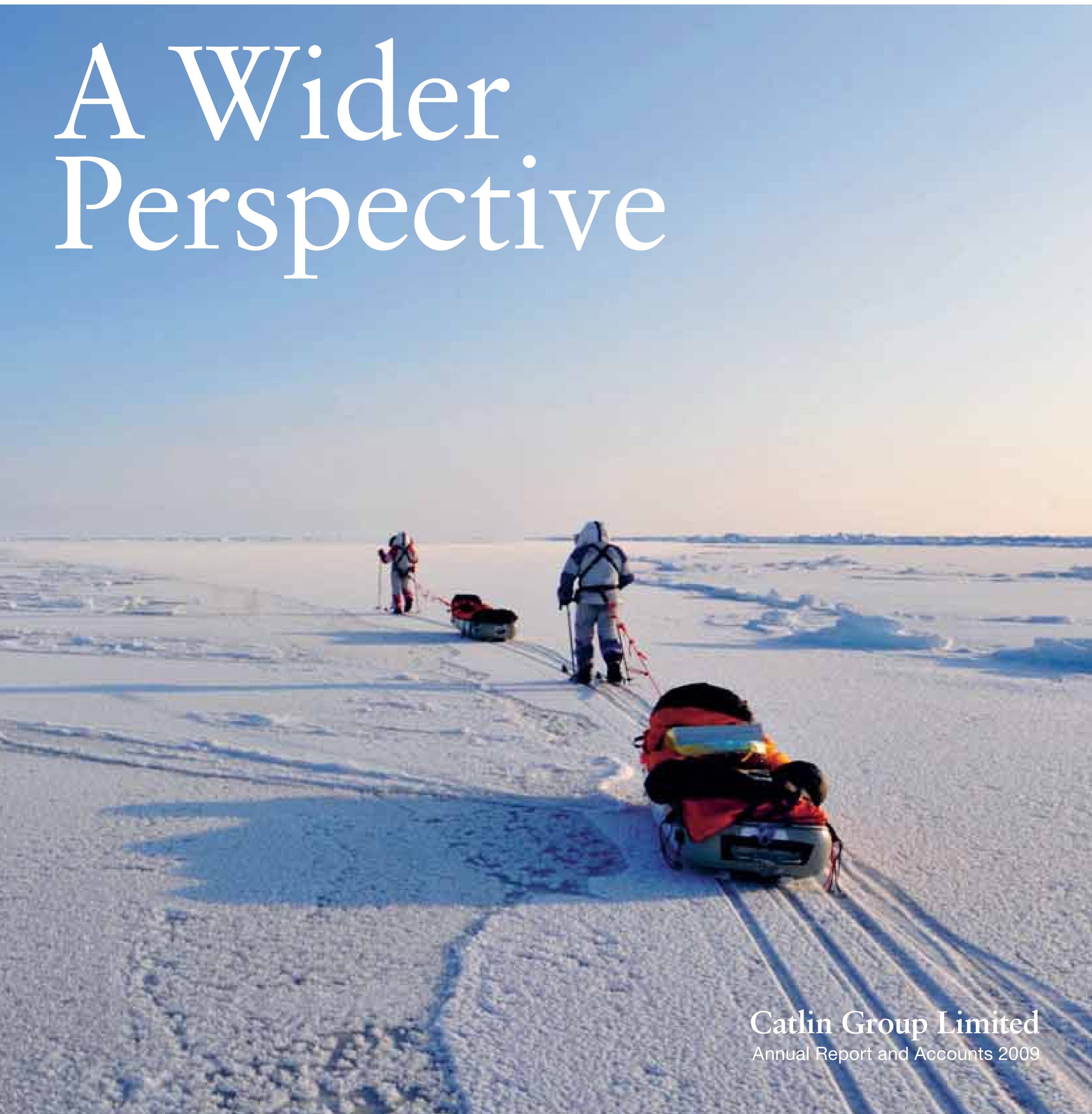
CATLIN

Underwriting Ambition

A Wider Perspective



Catlin Group Limited

Annual Report and Accounts 2009

A Wider Perspective...*

Catlin Group Limited is an international specialist property/casualty insurer and reinsurer writing more than 30 classes of business worldwide. Catlin operates six underwriting hubs: London, US, Bermuda, Europe, Asia-Pacific and Canada.

To realise our own ambitions, Catlin helps realise the ambitions of our clients. We look at risk with a wider perspective, and we work in parallel with clients and their brokers to develop imaginative and effective solutions to manage their risks.

Catlin is also the title sponsor of the Catlin Arctic Survey, an ongoing scientific endeavour whose aim is to collect data that researchers can use to develop a wider perspective regarding the impact of climate and other environmental changes.

>> For more information about the Catlin Arctic Survey, see pages 10 to 17.

Gross premiums written (US$m)

2009	**$3,715**
2008	$3,437
2007	$3,361
2006[1]	$2,722
2005	$1,387

Net income available to stockholders (US$m)

2009	**$509**
2008	($47)
2007	$462
2006[1]	$428
2005	$20

Book value per share (US$)[2]

2009	**$7.68**
2008	$6.61
2007	$8.38
2006	$7.05
2005	$5.97

Dividends per common share (UK pence)[2]

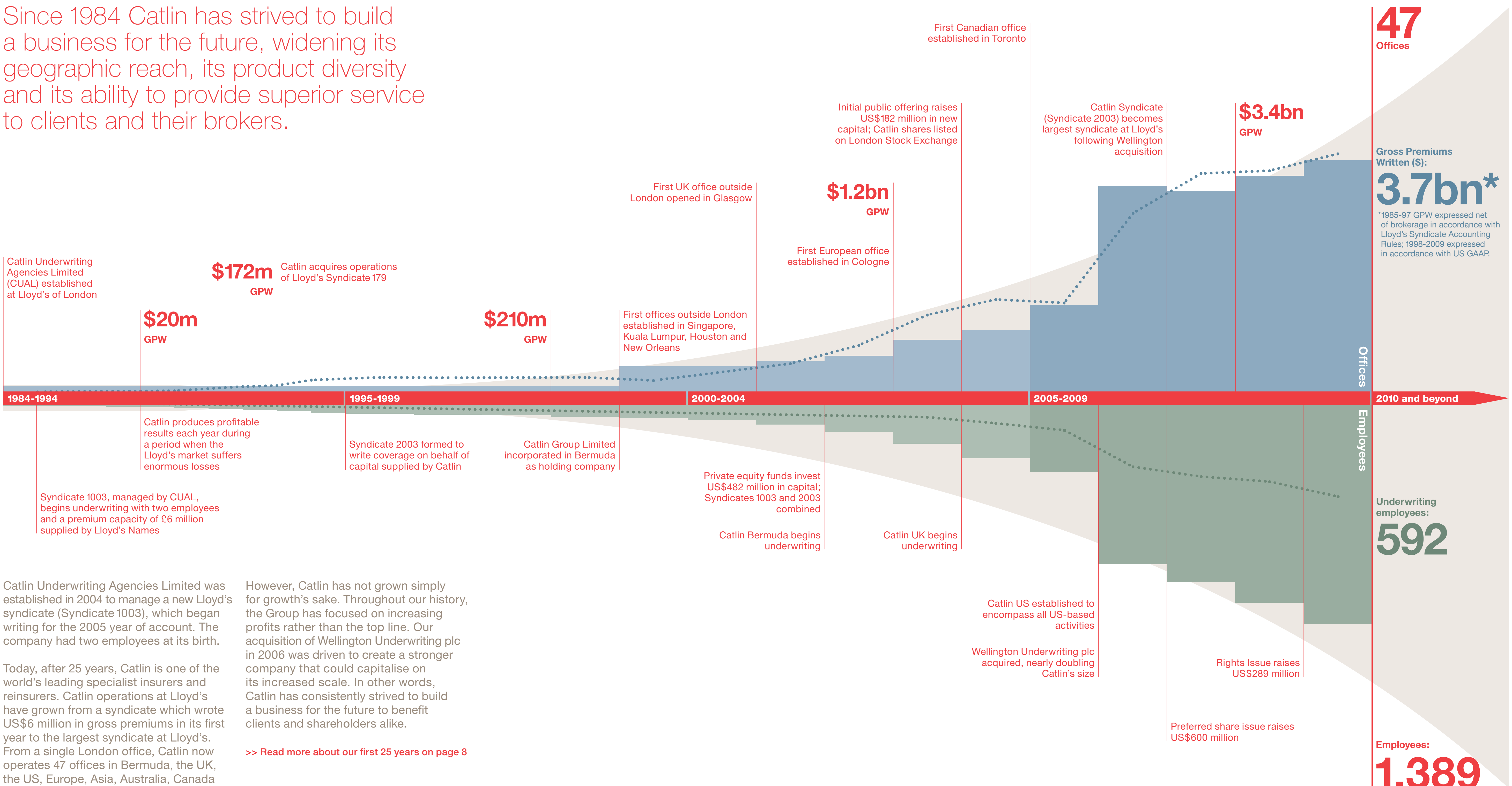
2009	**25.0**
2008	23.2
2007	21.9
2006	20.1
2005	13.5

[1]Catlin results and Wellington results aggregated, both prepared under US GAAP for period ended 31 December 2008
[2]Pre-2009 figures restated for impact of Rights Issue completed in March 2009

*Catlin has viewed risk with a wider perspective for 25 years; lift this page to find out more.

25 Years of a Wider Perspective

Since 1984 Catlin has strived to build a business for the future, widening its geographic reach, its product diversity and its ability to provide superior service to clients and their brokers.



Catlin Underwriting Agencies Limited was established in 2004 to manage a new Lloyd's syndicate (Syndicate 1003), which began writing for the 2005 year of account. The company had two employees at its birth.

Today, after 25 years, Catlin is one of the world's leading specialist insurers and reinsurers. Catlin operations at Lloyd's have grown from a syndicate which wrote US$6 million in gross premiums in its first year to the largest syndicate at Lloyd's. From a single London office, Catlin now operates 47 offices in Bermuda, the UK, the US, Europe, Asia, Australia, Canada and Latin America.

However, Catlin has not grown simply for growth's sake. Throughout our history, the Group has focused on increasing profits rather than the top line. Our acquisition of Wellington Underwriting plc in 2006 was driven to create a stronger company that could capitalise on its increased scale. In other words, Catlin has consistently strived to build a business for the future to benefit clients and shareholders alike.

>> Read more about our first 25 years on page 8

… that has created a strong, international business

Catlin has over the past 25 years become one of the world's leading specialty insurers and reinsurers, with six underwriting hubs and offices in 47 cities in 20 countries.

… on the future challenges that our planet is facing

Catlin is proud to sponsor the Catlin Arctic Survey, whose aim is to gather scientific data about the potential impact of climate change and other changes to our environment.

… on building a business that will stand the test of time

Catlin produced strong underwriting and financial results during 2009. At the same time, we have continued to build a business that is capable of greater success in the future.

… on fulfilling our role as a responsible business

Catlin strives to adhere to the highest levels of corporate responsibility, in both how the Group is governed and how we interact with our customers and the community as a whole.

… that is producing excellent financial results

Catlin aims to increase value for our shareholders and to provide strong financial security for policyholders. During 2009 Catlin produced record profits and strengthened its balance sheet.

About the Catlin Group

Catlin Group Limited is an international specialty insurer and reinsurer. The Group is domiciled in Bermuda. Our six underwriting hubs serve the world's major insurance centres. We operate offices in 47 cities in 20 countries.

Underwriting hubs

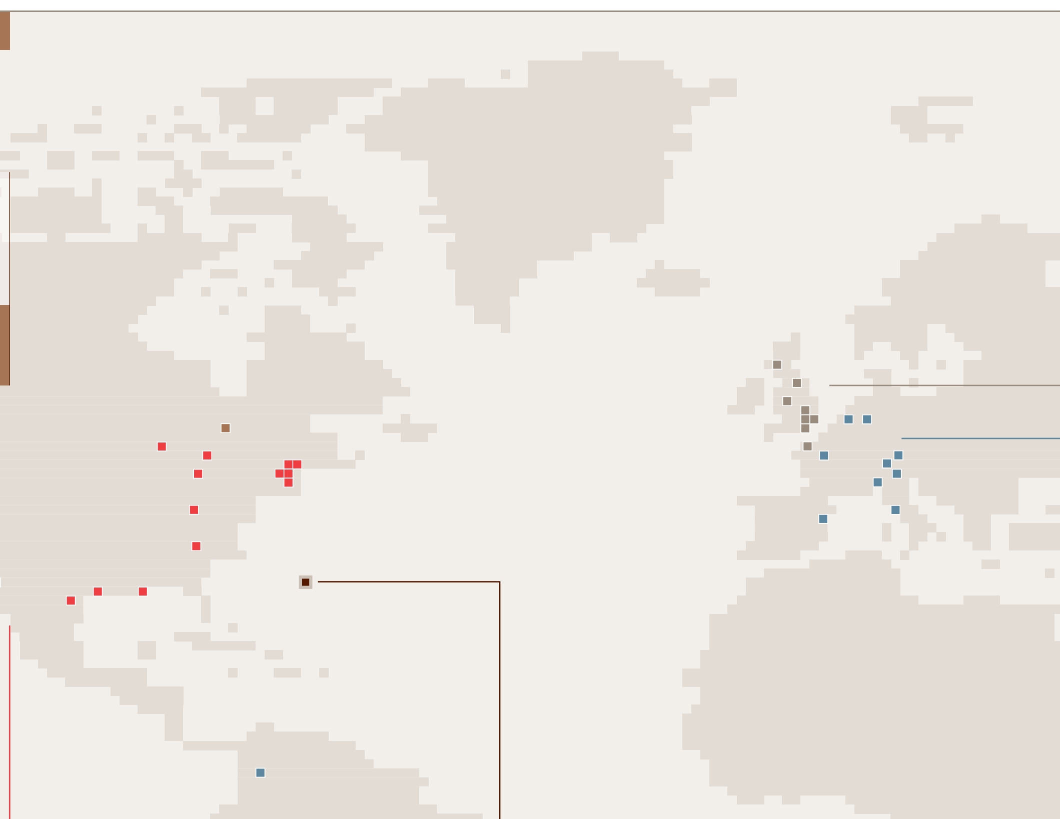
London, home of Catlin's original operations is our largest underwriting hub. Our other five hubs provide product and geographic diversity and allow Catlin to build closer relationships with clients.

>> Read more about our hubs on pages 34 to 45

Catlin's people

Catlin's employees are the Group's greatest asset. Catlin employed 1,380 people at 31 December 2009.

>> Read more about our people on page 72



Canada

Gross premiums written:

$62m

Catlin Canada was established in 2005 with an office in Toronto, followed by a second office in Calgary opened in 2006. Catlin Canada underwrites a full complement of insurance products for the Canadian market.

Offices:	2
Employees:	43

Read more on page 44

United States

Gross premiums written:

$581m

Catlin US is now one of the leading specialty insurers and reinsurers in the US. Catlin established its first US offices in 1999, and now operates offices in 16 cities across the nation. Catlin US also includes admitted and non-admitted insurers.

Offices:	16
Employees:	290

Read more on page 38

Bermuda

Gross premiums written:

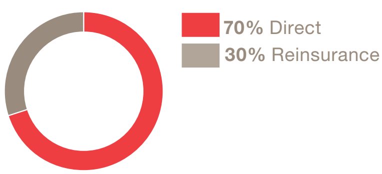
$421m

Besides serving as the Group's headquarters, Catlin Bermuda also writes a significant portfolio of property and casualty reinsurance and specialty insurance. Catlin Bermuda also provides intra-Group reinsurance to other Catlin insurance carriers.

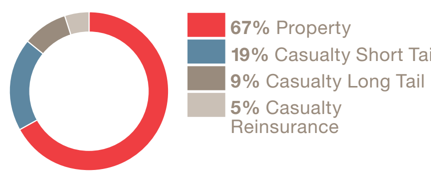
Offices:	1
Employees:	61

Read more on page 36

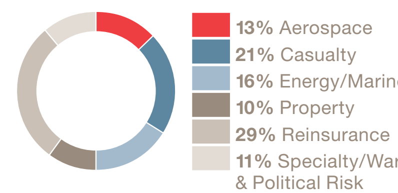
Direct vs reinsurance gross premiums written 2009

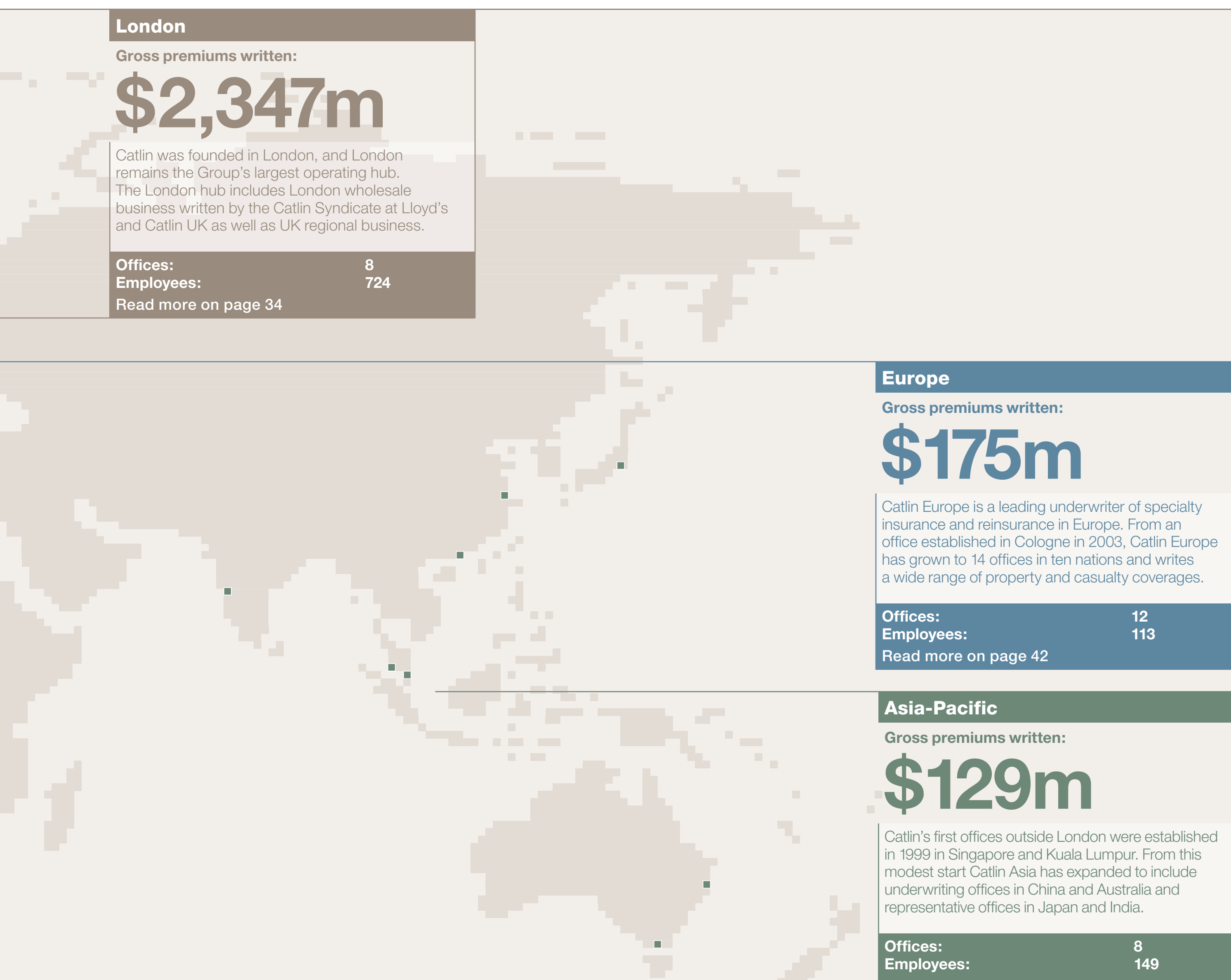


Property vs casualty gross premiums written 2009



Gross written premium by product group 2009





London

Gross premiums written:

$2,347m

Catlin was founded in London, and London remains the Group's largest operating hub. The London hub includes London wholesale business written by the Catlin Syndicate at Lloyd's and Catlin UK as well as UK regional business.

Offices: 8
Employees: 724

Read more on page 34

Europe

Gross premiums written:

$175m

Catlin Europe is a leading underwriter of specialty insurance and reinsurance in Europe. From an office established in Cologne in 2003, Catlin Europe has grown to 14 offices in ten nations and writes a wide range of property and casualty coverages.

Offices: 12
Employees: 113

Read more on page 42

Asia-Pacific

Gross premiums written:

$129m

Catlin's first offices outside London were established in 1999 in Singapore and Kuala Lumpur. From this modest start Catlin Asia has expanded to include underwriting offices in China and Australia and representative offices in Japan and India.

Offices: 8
Employees: 149

Read more on page 40

Strategy and Operating Principles

Catlin's ambition is to be the preferred global specialty insurer and reinsurer based on underwriting excellence delivered by outstanding people.

To achieve this goal, the Group has established the following strategic objectives:

- To operate underwriting hubs in the world's major insurance markets;
- To expand the Group's distribution network to achieve greater geographic and portfolio diversification;
- To manage risk through disciplined underwriting, effective underwriting controls and procedures, rigorous analytical review, portfolio diversification and the efficient use of reinsurance;
- To manage capital efficiently, in part by adjusting underwriting strategies to exploit prevailing conditions, both in the overall marketplace and within individual business classes, and by managing investments to obtain optimal risk-adjusted returns;
- To continually enhance and improve business processes and controls; and
- To be the employer of choice in the sector to attract and retain the highest-calibre employees.

Operating principles

To carry out its strategy more effectively, Catlin has established a core set of principles by which the Group strives to operate. These operating principles are embedded in all of Catlin's underwriting hubs worldwide.

- **Forward-looking approach**
  Catlin is building a business for the future. The Group seeks to concentrate on business activities that will produce long-term, sustainable earnings across underwriting cycles.
  >> See pages 8 to 9

- **Attractive return on capital**
  Recognising that annual returns can vary greatly based on market conditions and the occurrence of catastrophic losses, Catlin strives to at least double shareholder value over a ten-year cycle. Catlin also aims to achieve a weighted average return on equity that is ten percentage points greater than the risk-free rate over a cycle.
  >> See pages 6 to 7

- **Realistic and flexible approach to underwriting cycles**
  Catlin seeks to increase premium volume during periods of favourable rates and conditions and focus on profit rather than market share during times of less favourable market conditions.
  >> See pages 24 to 33

- **Focus on gross underwriting profits**
  Catlin expects each class of business to produce a gross profit in the aggregate through an underwriting cycle.
  >> See pages 24 to 33

- **Diversification by class and distribution**
  Catlin actively explores new classes of business and geographic markets to diversify its risk portfolio and to enlarge its core earnings base.
  >> See pages 24 to 33

- **Conservative reserving philosophy**
  The Group sets loss reserves conservatively, expecting to make a small release in most years.
  >> See pages 56 to 59

- **An underwriting and corporate structure which maximises scope for earnings growth and provides flexibility**
  Catlin's underwriting hubs provide access to diversified business opportunities in the world's major markets. These six hubs – London/UK, Bermuda, US, Asia-Pacific, Europe and Canada – provide Catlin-owned insurance carriers with flows of business, much of which would otherwise be placed with local insurers or reinsurers. This structure also allows the Group to strengthen relationships with local clients and retail brokers.
  >> See pages 34 to 45

- **Emphasis on capital preservation**
  Catlin seeks to underwrite business that presents the potential of excellent returns against the amount of risk assumed. The Group actively looks for new classes of business which offer the potential of underwriting profit and, where possible, are uncorrelated to the existing portfolio. Catlin uses sophisticated portfolio modelling tools to manage actively its business mix. Catlin uses third-party reinsurance both to protect its capital base and to increase underwriting capacity.

  Similarly, the Group maintains a diversified investment portfolio with a goal of producing optimum returns without assuming undue levels of risk.
  >> See pages 61 to 63 and 66 to 71

- **Maximisation of relationships with clients and brokers**
  Catlin aims to support core clients whose business is profitable over the long term, both during periods of constrained market capacity and after a large loss, recognising that lasting relationships should not be broken due to short-term considerations. The Group works to provide innovative solutions to clients' needs. It aims to provide brokers with consistent support and easy access.
  >> See pages 64 to 65

- **Continuous improvement of technical capabilities**
  Catlin recognises that ongoing investment in people, systems, processes and controls is essential to compete effectively.
  >> See pages 66 to 75

- **A culture that stresses open communication and accountability for actions**
  Catlin has developed a corporate culture that gives underwriters and key employees significant responsibility for business decisions, supported by a comprehensive control framework. Employees are encouraged to think and act like owners and to work in teams whenever possible.
  >> See pages 72 to 75

- **Corporate responsibility**
  Just as Catlin expects employees to take responsibility for their decisions, Catlin strives to maintain high standards of corporate responsibility. The Group's operations have social, environmental and ethical implications. Catlin's corporate behaviour must reflect its responsibilities not only to shareholders and clients, but to the communities in which it operates.
  >> See pages 80 to 83

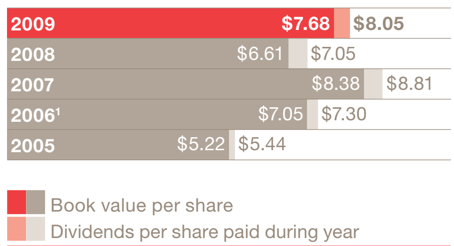
Key Performance Indicators

Catlin has established a set of key performance indicators ('KPIs') to measure the Group's performance against its strategic objectives.

The Group has selected financial KPIs to measure the creation of shareholder value, shareholder returns and profitability, premium volume, underwriting performance, expense control and investment performance. Non-financial KPIs measure employee retention and claims service performance.

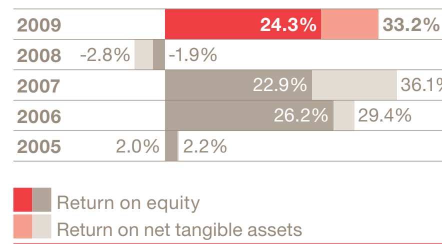
All financial KPIs are relevant to the Group's compensation philosophy, and three of the KPIs are explicitly incorporated in the calculations of performance-related pay.

Book value per share plus dividends (US$)



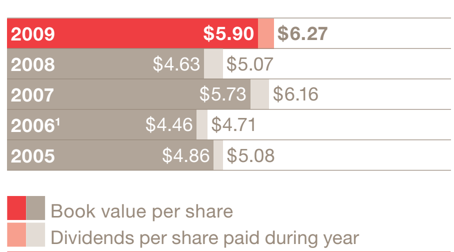
Management believes that increase in book value per share plus the dividend paid to shareholders during a calendar year is an appropriate measure of shareholder value creation. During 2009 shareholder value, as measured on this basis, increased by 22 per cent. The company aligns its Employee Performance Share Plan with the interests of shareholders by setting vesting conditions based on growth in book value per share plus dividends paid during rolling three- and four-year periods.

Return on equity/Return on net tangible assets (%)



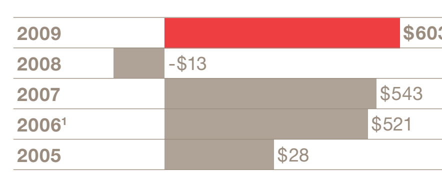
Catlin aims to achieve attractive returns for shareholders, with a target after-tax return on equity of 10 percentage points above the risk-free rate over an underwriting cycle. Catlin has far exceeded this target on an annual basis in three of the past five years. Employees' profit-related bonuses are determined as an increasing percentage of income before tax as RoE exceeds a minimum amount, subject to a cap.

Tangible book value per share plus dividends (US$)



Creation of shareholder value is also measured by the increase in tangible book value per share plus the dividend paid to shareholders during a calendar year. Growth in tangible book value per share more accurately assesses the Group's performance against its underwriting capital (excluding goodwill and other intangibles). During 2009 shareholder value, as measured on this basis, increased by 35 per cent.

Income before income tax (US$m)



Catlin strives to increase its profits over time. Pre-tax profitability is an effective measurement of the combination of underwriting performance, expense control and investment return. During 2009 Catlin's pre-tax profits reached an all-time high, exceeding the previous record by 11 per cent. Pre-tax profits in 2008 were negatively impacted by investment volatility and claims arising from Hurricane Ike. As described earlier, pre-tax profits form the basis for profit-related bonus calculations.

Net premiums earned (US$m)

	US$m
2009	$2,918
2008	$2,596
2007	$2,490
2006[1]	$2,228
2005	$1,216

The Group considers net premiums earned as a relevant indicator of underwriting volume during an accounting period. Net premiums earned increased during 2009 by 12 per cent, or 17 per cent on a constant currency basis. The growth in net premiums earned during 2009 reflects organic growth as well as the embedded growth supplied by the acquisition of Wellington Underwriting plc.

Loss ratio (%)

Year	Attritional loss ratio	Loss ratio
2009	53.7%	57.6%
2008	54.0%	62.9%
2007	51.0%	46.4%
2006[1]	48.7%	50.0%
2005	48.5%	71.1%

Attritional loss ratio
Loss ratio

The loss ratio measures claims and reserve movements as a percentage of net premiums earned and is a measure of underwriting performance. The decrease in the loss ratio in 2009 was the result of the benign level of catastrophe losses. The attritional loss ratio – which excludes catastrophe and large single-risk losses and is a measure of longer-term, sustainable underwriting profitability – improved slightly during 2009.

Employee turnover (%)

2009	10.4%
2008	14.0%
2007	19.7%
2006[1]	12.9%
2005	10.6%

Catlin seeks to attract and retain high-calibre employees, and the annual employee turnover rate measures the company's success in retaining staff. The employee turnover rate of 10.4 per cent in 2009 was the lowest in five years and marks a return to the traditionally low turnover rates at Catlin prior to the Wellington acquisition at the end of 2006.

Total investment return (%)

2009	5.9%
2008	-1.4%
2007[1]	4.6%
2006	4.3%
2005	2.4%

Total investment return measures investment income plus realised and unrealised gains and losses in the asset portfolio. The Group's strong investment return of 5.9 per cent during 2009 resulted from the recovery in value of the Group's diversified asset holdings as well as from narrowing spreads on fixed income investments. This was in contrast to the previous year, when investment performance was adversely affected by unprecedented volatility in global investment markets.

Expense ratio (%)

2009	31.5%
2008	32.0%
2007	34.1%
2006[1]	32.6%
2005	30.9%

The expense ratio measures the Group's acquisition costs and operating expenses as a percentage of net premiums earned. Net premiums earned during 2009 grew at a faster rate than expenses, as the volumes underwritten by the non-London underwriting hubs increased. Catlin's expense ratio excludes performance-related pay and certain Group expenses.

Claims performance (%)

2009	31%
2008	No survey undertaken
2007	25%
2006[1]	No survey undertaken
2005	17%

Catlin's claims handling performance is measured by a bi-annual study conducted by Gracechurch Consulting. Surveyed brokers are asked which London market insurer they would highly recommend to clients on the basis of the quality of claims service. Catlin was the top-ranked insurer in 2009 with 31 per cent of brokers highly recommending Catlin's claims service. Catlin also ranked first in a 2007 study and ranked fourth in 2005.

[1]Catlin and Wellington combined

Note: Pre-2009 book value and dividend amounts have been adjusted for the effect of the Rights Issue in March 2009

What We Have Achieved In The Last 25 Years

1984-2009

In the autumn of 1984 Lloyd's approved a new underwriting agency to begin operations with the 1985 year of account. The active underwriter was young, but had more than a decade of experience at Lloyd's. As was common at the time, the agency was small: there were only two employees and their marine syndicate had a modest premium capacity of £6 million.

Twenty-five years later, Catlin Group Limited has recorded the best year in its history. The Bermuda-headquartered Group has written more than US$3.7 billion in gross premiums, produced record profits and increased shareholder value significantly. It manages the largest syndicate at Lloyd's. It has expanded to include five underwriting hubs beyond London, 47 offices worldwide and nearly 1,400 employees.

But some things have not changed over the years. The company remains true to its core operating principles.

Its focus remains disciplined underwriting and superior service to brokers and their clients.

Stephen Catlin, the Group's founder, still leads the company as Chief Executive.

Gross premium volume has grown at a compound annual rate of more than 30 per cent over the past 25 years. But more importantly, the Group has consistently produced strong profits for its investors. Whilst Lloyd's recorded huge losses for five consecutive years from 1988 to 1992 – losses which nearly caused its demise – Catlin was one of the few agencies to produce a profit in each of those years. In 2009 the Group's return on net tangible assets exceeded 30 per cent.

Throughout its history Catlin has followed a consistent strategy, designed to position the Group to take advantage of the opportunities available in the cyclical property/casualty market.

First and foremost, the Group has stressed underwriting discipline and profitability. Catlin does not 'bet the bank' because it maintains a diverse, largely uncorrelated risk portfolio. The Group has invested in international expansion and multiple underwriting hubs. This has further diversified the risk portfolio – in terms of product and geographic mix – and allowed Catlin to build stronger relationships with clients and brokers at a local level.

Catlin's success is also the result of staying true to a set of values: transparency, accountability, teamwork, integrity and dignity, with respect to both clients and fellow employees. These values are an essential part of the business.

It has been a great 25 years, and Catlin looks ahead with confidence.

>> See a timeline of our growth and history inside the front cover
>> Read about our strategy and operating principles on pages 4 and 5

The Underwriting Room in the Lloyd's 1958 Building, from which Catlin originally operated.

Our Aims For The Future

2010 & beyond

As Catlin enters its second quarter-century, the Group has never been in a stronger position. Market conditions remain good. The investment made in the underwriting hubs outside of London over the past decade is now paying off, and these operations are capable of sustaining profitable growth in the years ahead.

Catlin will succeed in the future by doing what it does best: underwriting with an eye on bottom-line profit rather than top-line growth; further diversifying our portfolio to reduce volatility; continuing to employ the best possible talent; and sticking to our proven strategy and adhering to our embedded values.

Catlin is now a market leader, both as an underwriter and as the sponsor of the Catlin Arctic Survey.

>> Read more about the Catlin Arctic Survey on the following pages

The Catlin Arctic Survey: Why We Are Involved

The Catlin Arctic Survey was created because of the serious implications that climate change and other environmental changes may pose for the insurance industry, its policyholders and all of society.

There is much debate concerning our changing environment, but one thing is absolutely clear: we need more scientific facts about climate change and other changes to the environment.

The Catlin Arctic Survey is designed to accomplish exactly that. The Survey's objective is to aid scientists in obtaining the crucial, impartial data they require to make more reliable conclusions about the impact of climate and other environmental changes. This data will benefit insurers like Catlin, policyholders and all citizens of the earth.

During 2009 the Catlin Arctic Survey measured the thickness of the floating Arctic sea ice, providing scientists with data that allowed them to model more accurately when this ice could disappear during summer months. During 2010, the Survey will continue to measure the sea ice and will also include an 'Ice Base' from which scientists can study ocean acidification and other potential changes to Arctic waters resulting from carbon emissions.

>> Read more about the Catlin Arctic Survey on pages 12 to 17

CATLIN arctic survey

Catlin Arctic Survey 2009: Measuring the Arctic's Future

"The Arctic will be ice-free in summer within about 20 years, and much of the decrease will occur within ten years."

Professor Peter Wadhams
University of Cambridge Polar Ocean Physics Group

Catlin Arctic Survey 2009 focused on the future of the floating sea ice in the Arctic Ocean. It has been generally accepted that this ice has been receding over the years, but the facts regarding this phenomenon were relatively thin.

The aim of the Survey was to measure the thickness of the Arctic ice cover so that scientists could make more accurate predictions as to when this defining feature of our planet could disappear during summers.

The Survey was an international collaboration between scientists and Arctic explorers. Prior to the Survey, scientists' estimations of the thickness of the sea ice were based on data gathered indirectly by satellites and submarines. However, this type of data cannot distinguish between the thickness of the ice and the depth of snow cover. To gather more precise information, three explorers travelled nearly 450 kilometres over 73 days, taking 1,500 physical measurements and thousands of visual observations of the sea ice.

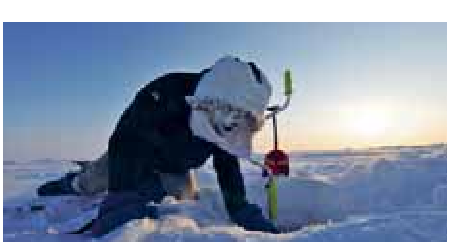
Along the way, the explorers reported that the ice over which they trekked was predominantly 'first-year' ice; that is, ice that had formed since the previous summer. Scientists had expected that most of this ice would have been older, 'multi-year' ice. The information gathered by the explorers was subsequently analysed by University of Cambridge scientists, who concluded that the Arctic could be ice-free during summers within 20 years.

Whilst the information collected by the three explorers – Pen Hadow, Ann Daniels and Martin Hartley – was scientifically significant, the Catlin Arctic Survey 2009 was also a test of human endurance. The three explorers endured temperatures below -40C and wind chill conditions of -70C, conditions which led to frostbite and extreme weight loss.

The explorers' efforts were recognised by TIME Magazine, who included Hadow, Daniels and Hartley on its list of the 'Heroes of the Environment' for 2009. "Their sacrifices are paying off for scientists around the world," TIME concluded.


European
Climate
Exchange

Catlin Arctic Survey 2010: A Changing Focus



"We want to support scientific research by getting to places that are otherwise nearly impossible to reach for research purposes."

Pen Hadow
Director, Catlin Arctic Survey

In 2010 the Catlin Arctic Survey will focus on what has been described as the 'other' carbon problem beyond climate change: ocean change.

Under the auspices of the Survey, scientists from British, French and Canadian research institutions are gathering at a purpose-built 'Ice Base' at the edge of the Arctic Ocean to study whether the increase in global carbon emissions is causing increased carbon dioxide ('CO_2') absorption by the seas. This could potentially lead to increased ocean acidification, which could significantly affect species living in the seas and create knock-on effects in the global food chain.

Since CO_2 is more easily absorbed in the cold waters of the Arctic, the research conducted at the Ice Base could produce data that scientists can use to predict any forthcoming changes in oceans around the globe.

Facts about environmental changes in the Arctic are relatively scarce because the hostile conditions – even during warmer months – make it difficult for scientists to conduct research. By providing the Ice Base for more than a dozen participating scientists, the researchers can carry out projects under the supervision of veteran polar explorers and guides. Whilst the scientists still must cope with bitter conditions, the Ice Base provides them with safety and essentials – such as heated dining, research and communications facilities – that they would be unable to provide on their own.

The research carried out at the Ice Base will examine the acidity level of the Arctic waters as well as investigate the impact on plants, bacteria and other forms of ocean life.

In addition to the Ice Base, more information is being collected on the thickness of the sea ice, following on from last year's Catlin Arctic Survey. Three explorers are again embarking on a two-month trek across the Arctic sea ice, gathering information that is vital for scientists to understand the impact of ice cover reduction on ocean acidification.

The Catlin Arctic Survey: Seeking Facts About Tomorrow

"We at Catlin evaluate risks based on facts. Society needs the same type of facts about our changing environment to manage risks in the future."

Stephen Catlin
Chief Executive, Catlin Group Limited

Research into potential changes to our environment has never been so important … nor so controversial.

The purpose of the Catlin Arctic Survey is simple: to provide valid scientific data that experts can use to paint a clearer picture of the risks that the planet will face in the years ahead. Those potential risks are substantial.

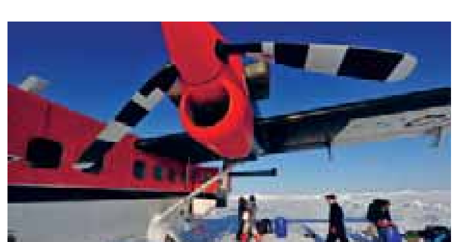
Catlin Arctic Survey 2009 focused on the future of the floating Arctic sea ice. Should the ice cover continue to decrease or disappear, the impact could be calamitous. Animals living in the region – including seals, walrus and polar bears – would no longer be able to live on and travel across the ice, jeopardising their access to food. The indigenous human population based around the Arctic Ocean would face tremendous changes affecting their food, shelter and clothing.

As the polar ice recedes, increased areas of open water will absorb increasing amounts of the sun's heat, which causes sea levels to rise as the water expands. Some researchers suggest that as many as 300 million people worldwide could be in danger of flooding by 2100 if global sea levels rise by 30 to 100 centimetres as some fear. Low-lying islands would be endangered as would cities like London, Shanghai and New York.

Global weather patterns could also be disrupted should the temperatures in the Arctic rise significantly. For example, tropical storms are fed in part by warm water, so rising ocean temperatures could lead to more powerful and destructive hurricanes.

Substantial new risks for society could be created by ocean acidification and other sea changes. The oceans contain nearly half of all of the known species on earth, and ocean life is estimated to support 80 per cent of all land-, sea- and sky-dwelling creatures.

Increased ocean acidification could reduce the amount of carbonate in the seas. This substance is used to form the shells and skeletons of shellfish. Likewise, coral reefs would be endangered, threatening many marine life forms. Perhaps more importantly, acidification could threaten tiny sea-living organisms which convert large amounts of CO_2 into living matter. This process releases large amounts of life-sustaining oxygen into the atmosphere.



Chairman's Statement

I am pleased to report Catlin's excellent financial results for 2009. Profits before tax were US$603 million, compared with a loss of US$13 million in 2008, and net income available to common shareholders was US$509 million. Return on net tangible assets was 33 per cent, and return on equity was 24 per cent.

Shareholder value increased substantially. Net tangible asset value per share rose to US$5.90, a 27 per cent increase (2008: US$4.63), whilst book value per share rose by 16 per cent to US$7.68 (2008: US$6.61). The Board of Directors has declared an increased full-year dividend for the fifth consecutive year.

Aided by a benign year for catastrophe losses, our underwriting team produced a record net underwriting contribution of US$651 million, an increase of 43 per cent.

The Group's total investment return amounted to US$419 million, reflecting a total return of 5.9 per cent on our average invested assets.

The Group benefitted from good underwriting conditions during 2009 as average weighted premium rates increased by 6 per cent across our portfolio of business. Whilst market conditions do not appear to be as strong in 2010, we believe there are still good opportunities for profitable underwriting. We believe that our investment in distribution, especially in our underwriting hubs outside London, differentiates Catlin from its peers and places Catlin in a strong position to take advantage of these opportunities.

Rights Issue and dividend

In March 2009 the Group announced the completion of a fully underwritten 2-for-5 Rights Issue. The Rights Issue raised US$289 million in new capital, which has been deployed to support profitable underwriting.

The Board of Directors has declared a final dividend of 16.8 pence per share (26.2 US cents), payable on 26 March 2010 to shareholders of record at the close of business on 26 February 2010. Including the interim 2009 dividend of 8.2 pence (13.8 US cents), the total 2009 dividend of 25.0 pence (40.0 US cents) represents an 8 per cent increase over the 2008 dividend as restated for the impact of the Rights Issue.

The increased dividend demonstrates the Board's confidence in the Group's prospects and underscores our commitment to providing an attractive return to our shareholders.

"We believe that our investment in distribution, especially in our underwriting hubs outside London, differentiates Catlin from its peers and places Catlin in a strong position to take advantage of these opportunities."

Sir Graham Hearne
Chairman

Board of Directors

There were several changes to the Board of Directors during 2009. Benjamin Meuli was appointed to the Board in June 2009 and succeeded Christopher Stooke as the Group's Chief Financial Officer in September. I would like on behalf of the Board to pay tribute to Chris Stooke for his hard work and leadership during his six years as Chief Financial Officer. Benji Meuli was formerly Chief Investment Officer at Swiss Re and a Managing Director at Morgan Stanley and JP Morgan, and he brings a broad range of investment and financial experience to Catlin.

Robert Gowdy and Guy Beringer were appointed as Non-Executive Directors during 2009. Bob Gowdy was formerly President and Chief Executive Officer of CGU Insurance Group in the United States and held executive positions at other US insurers, while Guy Beringer had been the Senior Partner of Allen & Overy, the international law firm. They succeeded Michael Eisenson and Michael Hepher, who retired from the Board in June 2009 and January 2010, respectively. Mike Eisenson joined the Board in 2002, whilst Michael Hepher joined in 2003. I would like to thank both Mike and Michael for their many contributions over the years as Directors and, in Michael's case, as Chairman of the Audit Committee. Nicholas Lyons, who joined the Catlin Board during 2008, succeeded Michael Hepher as Chairman of the Audit Committee.

Conclusion

Catlin's success during 2009 is largely the result of strong leadership by Stephen Catlin and his management team and the hard work of all of Catlin's employees. I express my thanks to Stephen, the management team and all Catlin employees for their efforts.

One of Catlin's overriding goals over the past 25 years has been to build a business that will grow and stand the test of time. As we celebrate the Group's 25th anniversary, I believe that Catlin has succeeded in this aim and is well-positioned to provide increased value for its shareholders in the future.

Sir Graham Hearne
Chairman

Chief Executive's Review

"The trends that lie beneath the results are even more encouraging. Our underwriting hubs outside our traditional London base have continued to grow. The attritional loss ratio has remained stable. The expense ratio has decreased. The balance sheet has further strengthened."

Stephen Catlin
Chief Executive

2009 was arguably Catlin's most successful year since the Group was established 25 years ago. Catlin produced record net profits, as well as record levels of underwriting contribution and investment return.

Net income to common shareholders amounted to a record US$509 million, compared with a US$47 million loss in 2008. On a pre-tax basis, profits totalled US$603 million, compared with a loss of US$13 million in 2008. The Group's return on net tangible assets amounted to 33.2 per cent (2008: -2.8 per cent), whilst return on average equity was 21.6 per cent (2008: -1.9 per cent).

These results are truly encouraging, especially following the Group's operating loss in 2008 which was largely driven by the impact of the economic crisis and a high level of catastrophe losses.

The trends that lie beneath the results are even more encouraging. Our underwriting hubs outside our traditional London base have continued to grow and are increasingly contributing to Catlin's profits. The attritional loss ratio has remained stable. The expense ratio has decreased. The balance sheet has further strengthened.

Underwriting performance

Catlin produced strong underwriting results during the past year. Average weighted premiums rates increased by 6 per cent across the Group's portfolio, with 10 per cent average weighted increases for catastrophe-exposed classes. Whilst catastrophe losses were benign during 2009, there were numerous events that gave rise to large single-risk losses, which did reduce our underwriting profits.

Gross premiums written rose by 12 per cent on a constant currency basis to US$3.7 billion (2008: US$3.4 billion); when exchange movements are included, the increase was 8 per cent. Volumes underwritten in London were flat on a constant currency basis, the gross premiums written by the Bermuda, US, Asia-Pacific, European and Canadian underwriting hubs increased significantly.

Net premiums earned rose by 17 per cent on a constant currency basis to US$2.9 billion (2008: US$2.6 billion). The growth in net premiums earned resulted from not only increased volumes, but also the embedded growth still being produced by Catlin's acquisition of Wellington Underwriting plc in 2006.

Underwriting contribution – a metric by which Catlin assesses underwriting profitability – increased to a record US$651 million, a 43 per cent increase (2008: US$454 million).

The loss ratio decreased to 57.6 per cent from 62.9 per cent, while the attritional loss ratio – a measure that excludes catastrophe and large single risk losses – decreased to 53.7 per cent (2008: 54.0 per cent). Large single-risk losses accounted for 7.1 percentage points of the loss ratio (2008: 3.1 percentage points), which was at the higher end of our expectations. Approximately half of the large single-risk losses were credit insurance claims arising from the economic crisis that were reported in the first half of the year. We do not expect significant further claims from this source.

Reserve releases during 2009 amounted to US$94 million, an amount equal to 2 per cent of net opening loss reserves (2008: US$118 million; 3 per cent).

The expense ratio – which includes policy acquisition costs and most operating expenses but excludes performance-related pay and some Group overheads – decreased to 31.5 per cent as the Group continued to place tight controls on expenditures (2008: 32.0 per cent). Overall, the Group's combined ratio decreased nearly 6 percentage points to 89.1 per cent (2008: 94.9%).

The rapid recovery in financial markets during 2009 has resulted in return of much of the capital lost by the property/casualty industry in 2008. Some new players entered the market as the year progressed. Despite increased capacity, the marketplace has maintained discipline, with pricing across our risk portfolio broadly flat during the January 2010 renewal season. Underwriting conditions currently remain extremely favourable for most of the business classes that Catlin writes, although pricing for longer-tail casualty lines is less attractive.

Catlin is reacting by retrenching in these business classes until adequate margins return.

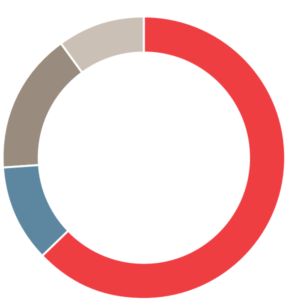
Full commentary on Catlin's underwriting performance during 2009 is found in the Underwriting Review on page 24.

Chief Executive's Review continued

Underwriting hubs

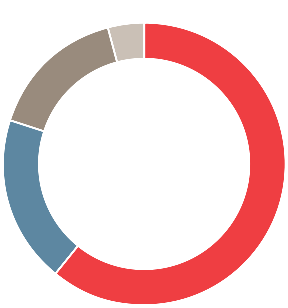
For its first 15 years, Catlin operated from one office in London. In 1999 we began to broaden our underwriting horizons, establishing small offices in Singapore, Kuala Lumpur, Houston and New Orleans. We believed that significant opportunities existed for Catlin outside the London wholesale market, and we began building relationships with brokers and assureds whose business was underwritten locally. Writing business outside London also increases the diversity of our portfolio, both by geography and by product mix.

Chart 1: 2009 gross premiums written by underwriting hub



63% London
11% Bermuda
16% US
10% International*

Chart 2: 2009 underwriting contribution by underwriting hub



61% London
19% Bermuda
16% US
4% International*

*International includes Asia-Pacific, European and Canadian underwriting hubs

Today, Catlin operates 47 offices in 20 countries worldwide, staffed overwhelmingly by local professionals. As a result of our international growth, we now organise our business by underwriting hub:

- **London,** which includes London wholesale business and our UK regional business;
- **Bermuda,** which includes business written by Catlin Bermuda;
- **US,** which includes business written by Catlin's US offices on behalf of our US-domiciled insurers, the Catlin Syndicate and Catlin UK;
- **Asia-Pacific,** which is headquartered in Singapore and includes offices in China, Malaysia, Australia, Japan and India;
- **Europe,** which is headquartered in Cologne and includes offices in France, Germany, Belgium, Italy, Spain, Switzerland, Austria and Norway, as well as two Latin American representative offices; and
- **Canada,** which is headquartered in Toronto and includes an office in Calgary.

Our underwriting hubs outside of London are now producing meaningful results. During 2009, the non-London hubs accounted for 37 per cent of total gross premiums written and produced 39 per cent of the Group's underwriting contribution (see Charts 1 and 2).

We expect the value of our global distribution system to increase during a soft market as locally produced business tends to be more resilient to competitive pressures than London wholesale business. Our underwriting hubs constitute a significant competitive advantage for Catlin.

Investments

The recovery in global investment markets during 2009 had a positive impact on Catlin's investment performance. The Group's total return on average investments increased to a record 5.9 per cent (2008: -1.4 per cent). Total investment income amounted to US$419 million (2008: -US$85 million).

Catlin recognises that this excellent performance was the result of unusual market conditions. The Group continues to maintain a defensive investment strategy, and we recognise that this performance is not likely to be repeated in 2010.

Catlin's total cash and investments increased by 30 per cent during 2009 to US$7.7 billion (2008: US$5.9 billion). A portion of this increase was the result of the US$289 million Rights Issue concluded in March 2009 and the reinsurance to close of Wellington Syndicate 2020 into the Catlin Syndicate. The positive investment performance and cash flow from the Group's operations also contributed to the increase.

More information about our investment performance can be found on page 61.

Balance sheet/capital adequacy

The Group's balance sheet further strengthened during 2009. Total assets rose by 21 per cent to US$11.7 billion (2008: US$9.7 billion), whilst cash and investments rose by 30 per cent to US$7.7 billion (2008: US$5.9 billion). Stockholders' equity amounted to US$3.3 billion on 31 December 2009, a 33 per cent increase (2008: US$2.5 billion).

The Group's Rights Issue, concluded in March 2009, raised US$289 million in new capital, which was deployed immediately to write additional amounts of catastrophe business at the favourable rates prevailing during 2009. The Group aims to maintain a level of capital that exceeds its current requirements by 10 to 20 per cent, both to provide a comfortable margin and to have the ability to respond quickly to underwriting opportunities. An analysis of the Group's capital position is provided in the Financial Review.

Financial strength ratings

In December Standard & Poor's increased the financial strength rating that it assigns to our underwriting subsidiaries to 'A' from 'A-'.

In announcing its decision, Standard & Poor's noted "the improved financial profile of the Group" as well as "Catlin's strong competitive position, strong operating performance, strong capitalisation and strong enterprise risk management."

A.M. Best, the other major insurance rating agency, also has assigned 'A' financial strength ratings to Catlin's underwriting units.

Catlin's core values

As Catlin has grown into a global business, we have learned that the set of common values that the Group has established over the past 25 years becomes more important to our success.

Despite differences in culture and language, Catlin employees worldwide share five common values:

- **Transparency.** Catlin encourages open communication, both with clients and among employees.
- **Accountability.** Our employees are expected to take responsibility for their actions and decisions and to think and act like owners.
- **Teamwork.** Employees should act in the best interests of the Group, not their own office or function. Co-operation is key.
- **Integrity.** Employees' conduct must reflect the highest ethical standards and conform to the Catlin Code of Ethical Conduct.
- **Dignity.** Catlin employees treat clients, brokers and fellow workers fairly and with respect.

>> More about the Catlin culture appears on page 72

Enterprise Risk Management

Catlin during 2009 launched an Enterprise Risk Management ('ERM') initiative, resourced by a dedicated team drawn from the Group's existing Risk, Actuarial and Finance staffs. The objective of ERM is to integrate the Group's existing risk management programmes into an increasingly holistic and embedded risk and capital management framework. This strengthened framework is designed to lead to more informed strategic and operational decisions and enhanced capital efficiency.

The benefits that Catlin expects to achieve from ERM include:

- an improved understanding of all risks and related capital requirements;
- better decision making and enhanced profits through the use of sophisticated capital modelling and portfolio modelling techniques to improve the assessment of capital requirements and the allocation of capital; and
- stronger internal and external risk management communication.

Standard & Poor's has rated Catlin's ERM initiative as 'Strong', ranking Catlin amongst the top quartile of insurers whose ERM programmes are rated.

Catlin Arctic Survey

Catlin is the title sponsor of the Catlin Arctic Survey, an endeavour whose purpose is to produce scientifically valid data regarding the impact of climate change and other changes to our environment.

During 2009, an expedition led by polar explorer Pen Hadow gathered data on the thickness of the Arctic Sea ice that was subsequently used by University of Cambridge researchers to more accurately predict how quickly that ice is melting. In 2010 the Catlin Arctic Survey includes a similar data-gathering expedition as well as an Arctic 'ice camp' where scientists can gather research data on ocean acidification and other pertinent issues.

Our sponsorship of the Catlin Arctic Survey not only has produced new, important scientific data, but has also effectively raised awareness of the Catlin brand worldwide.

Conclusion

The Group's success in 2009 is the result of the hard work and commitment of our employees. I am extremely pleased with our employees' performance during the past year.

Catlin has closed the first 25 years of its history on a high note. Since the company's initial public offering in 2004, we have met our target of producing a return on equity that exceeds the risk-free rate by 10 percentage points over an underwriting cycle. Since 2004 Catlin's weighted annual return on equity has averaged 14.6 per cent whilst return on net tangible assets has averaged 19.4 per cent, compared with an average 2.8 per cent return on six-month US Treasury bills. Over the same period, our annual dividend has increased by 131 per cent in sterling.

Looking ahead, I see increasing opportunity for Catlin. The current market environment is good, with attractive pricing levels for most business classes, although the investment environment remains challenging. Much of the premiums written at increased rates during 2009 will not actually earn to profits until 2010. Our decade of investment in our non-London hubs paid off in 2009 as these hubs made a significant contribution for the first time to our overall results. Absent extreme events, we foresee steady increases in our underwriting performance as these hubs continue to mature.

I look forward to continuing success as Catlin enters its second 25 years.

Stephen Catlin
Chief Executive

Underwriting Review

Highlights:

- Catlin aspires to be the best technical underwriter in the marketplace
- There were no significant insured catastrophe losses during 2009, but large single-risk losses increased significantly
- Average weighted premium rates across the portfolio increased by 6 per cent
- Catlin is optimistic regarding market conditions in 2010 as weighted average premium rates increased by 1 per cent for business incepting in January

Underwriting philosophy

Catlin's underwriting strategy is built on the three fundamental pillars of profitable underwriting:

- access to specialty niche business;
- accurate pricing; and
- portfolio management.

The six underwriting hubs that Catlin has established over the past decade give the Group the ability to access geographically diverse business in local markets as well as to select the most appropriate mix of risks at the correct price. This access to business has enabled Catlin to increase premium volume and, more importantly, underwriting profitability. The Group during the past year increased its underwriting contribution by 43 per cent to US$651 million (2008: US$454 million), with approximately 40 per cent of underwriting contribution produced by the non-London underwriting hubs.

Our global, multi-hub approach gives the Group increased flexibility to meet the changing needs of our assureds and their brokers. It also allows Catlin to respond quickly to changes in market conditions. For example, Catlin was able to quickly allocate increased capacity across the Group in response to the favourable market conditions for Property Reinsurance that were created during 2009.

Catlin aspires to be the best technically in the marketplace, in terms of not only underwriting but also claims management and actuarial support. A key Catlin advantage is the use of consistent underwriting models and dedicated actuarial support across underwriting teams. A leading actuarial firm reported during 2009: "Catlin is towards the more sophisticated end of what we see elsewhere in the market in terms of technical pricing and rate monitoring processes. Catlin's processes have been in place for several years and have been improved and refined over time. Catlin is significantly ahead of the majority of others that we see in the market."

Whilst Catlin operations are diverse geographically, our underwriting ethos and technical approach is consistent throughout our 47 offices.

Catlin continually aims to improve and ensure that underwriters have all the support needed to accurately assess and price risk.

2009 catastrophe loss experience

2009 will be remembered as a good year for the property/casualty industry, due to the absence of major catastrophe losses at a time when pricing levels for many business classes were at, or near, record highs. 2009 also stands out in comparison with 2008, a year in which insurers incurred both large catastrophe losses and significant investment losses.

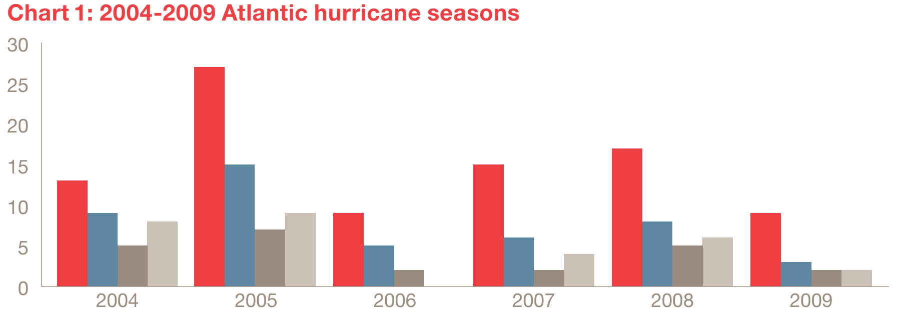
In recent years, the majority of catastrophe losses have been produced by Atlantic hurricanes. During 2009, water temperatures in the North Atlantic were warmer than the recent average, producing ideal conditions for tropical storm formation, and forecasters predicted an above-average number of storms. However, only nine named storms formed during the 2009 hurricane season, with only three reaching hurricane strength. This activity was well below the seasonal averages of 14.3 named storms and 7.5 hurricanes since the mid-1990s.

Commentators believe that the below-average hurricane experience during 2009 was partly due to the mitigating effect of El Niño, an oceanic and atmospheric phenomenon that causes unusually warm water temperatures in the Pacific near Ecuador. El Niño, which occurs every three to seven years, has a significant impact on atmospheric wind speeds which, in turn, is believed to prevent Atlantic storm formation. No more than two hurricanes have ever made US landfall during an El Niño year.

However, some experts believe that, irrespective of the effect of El Niño, Atlantic hurricane exposures will continue to increase over the long term as a result of climate change.

Largely due to the benign Atlantic hurricane season, the level of catastrophe losses worldwide was much lower than in 2008, according to Swiss Re (see Chart 2).

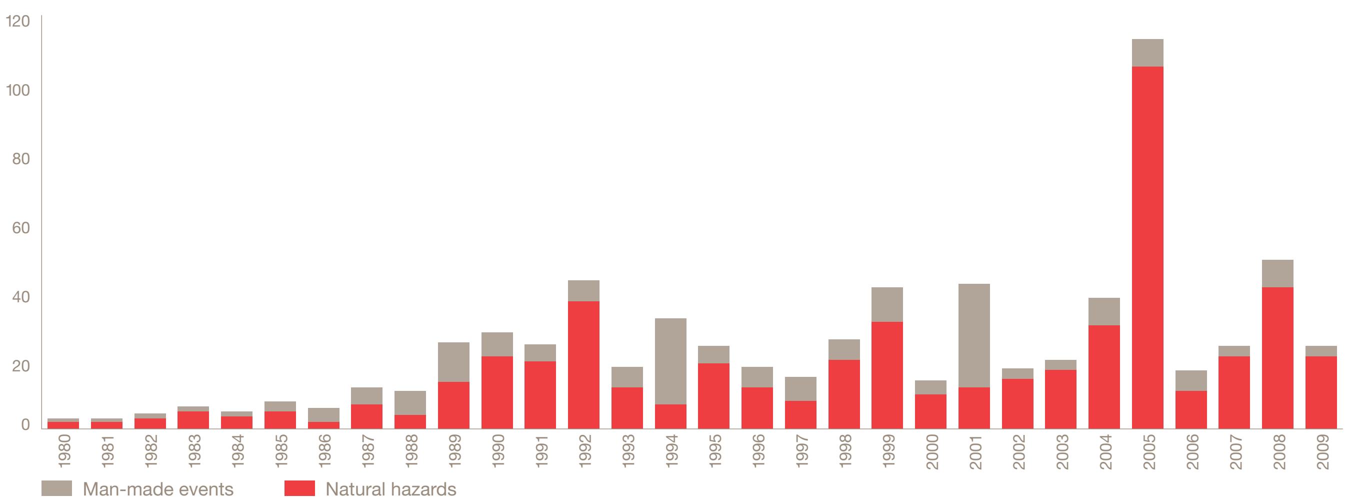
Chart 1: 2004-2009 Atlantic hurricane seasons



Source: Holborn Corporation

However, other natural hazards during 2009 led to substantial claims for insurers and reinsurers. Munich Re reports there were 850 destructive natural hazard events worldwide in 2009, significantly in excess of the ten-year average of 770. Such events produced approximately US$58 billion of economic losses and US$20 billion of insured losses, according to Aon Benfield. (see Table 3).

Chart 2: Worldwide catastrophe losses 1980-2009 (US$bn)



Source: Swiss Re sigma

Table 3: Largest insured natural hazard events in 2009

Date	Event	Location	Estimated fatalities	Estimated structure claims	Estimated economic loss (US$m)	Estimated insured loss (US$m)
24-25 January	Windstorm Klaus	France, Spain, Italy	26	715,000	$6,000	$3,300
23-24 July	Severe weather	Switzerland, Austria	11	5,000	2,500	1,250
10-13 February	Severe weather	Oklahoma, Texas, Ohio Valley (US)	13	300,000	2,400	1,200
9-11 April	Severe weather	Great Plains, Midwest, Southeast (US)	2	190,000	2,200	1,100
9-18 June	Severe weather	Rockies, Great Plains, Midwest, Mid-Atlantic (US)	1	200,000	2,000	1,000
7-20 February	Bushfires	Victoria, New South Wales (Australia)	173	10,040+	1,000	990
25-29 March	Severe weather	Great Plains, Southeast, Midwest, Northeast (US)	6	150,000	1,600	830
20-21 July	Severe weather	Rockies, Great Plains (US)	1	85,000	1,400	700
26-30 September	Typhoon Ketsana	Philippines, Vietnam	645	7,400,000	1,030	260
4 June	Earthquake	Italy	308	15,000	2,500	250
All other events					35,370	9,120
Total					**$58,000**	**$20,000**

Source: Aon Benfield

Underwriting Review continued

Rate movements

Average weighted premium rates across Catlin's risk portfolio increased by 6 per cent during 2009 (2008: 4 per cent decrease), marginally less than the 7.5 per cent anticipated at the start of the year.

Chart 4 shows rate movements for Catlin's overall book of business and for catastrophe and non-catastrophe business classes since 1999.

The 10 per cent average weighted increase for catastrophe classes of business was predominantly driven by 2008 loss experience. The 2008 Atlantic hurricane season was the fourth most severe on record – in terms of both number of storms and number of major hurricanes – since the onset of reliable data. Hurricane Ike in September 2008 was the third-most costly hurricane on record in terms of insured damage.

Rates for non-catastrophe classes continued to strengthen through 2009, and averaged 3 per cent for the year (see Chart 5). The average increase was partly driven by favourable pricing for certain D&O/Professional/Financial Casualty classes and improved pricing in other classes.

Chart 4: Rating indexes for catastrophe and non-catastrophe business classes 1999-2009

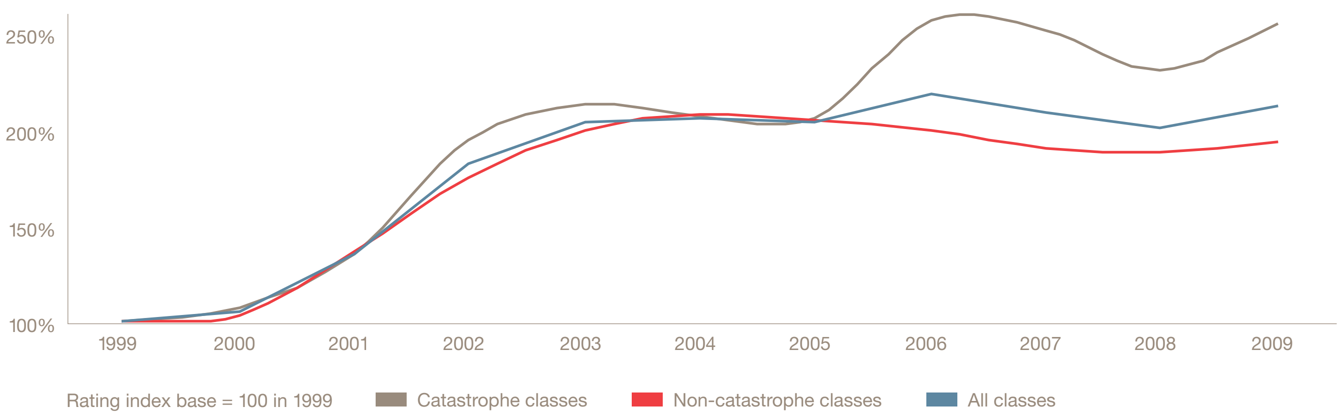


Chart 5: Rate movements for non-catastrophe business classes 2008-2009

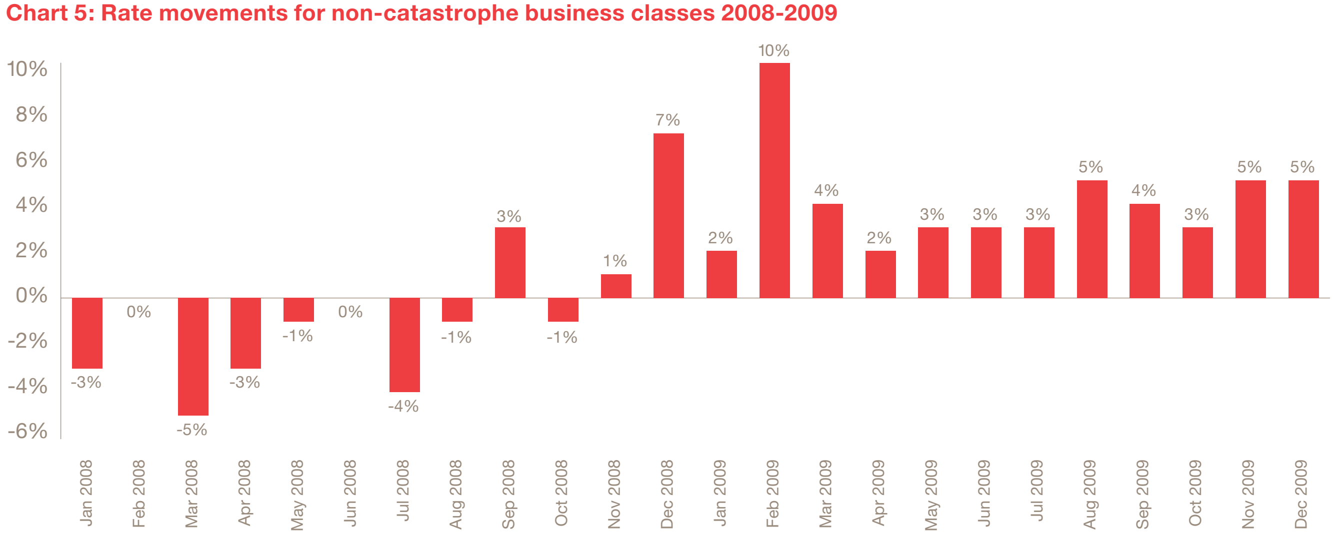


Chart 6 shows rate movements for classes of business within Catlin's six product groups – Aerospace, Casualty, Energy/Marine, Property, Reinsurance and Specialty/War & Political Risk – since 1999. Chart 7 shows average weighted premium rate movements by product group in 2008 and 2009.

After years of depressed pricing, 2009 saw significant hardening in the Airline insurance market, with rates rising an average of 15 per cent. This was driven by a number of single-risk losses, but was also in response to a general deterioration in underlying margins since 2002.

The Group's Political Risk and Credit portfolios were inevitably impacted by the global financial crisis, with premium volumes reducing due to a combination of the market's reassessment of underlying risk and reduced deal flows. Catlin continues to write this business on a selective and disciplined basis at reduced volumes but with much improved pricing and tighter conditions.

Chart 6: Rating indexes for product groups 1999-2009

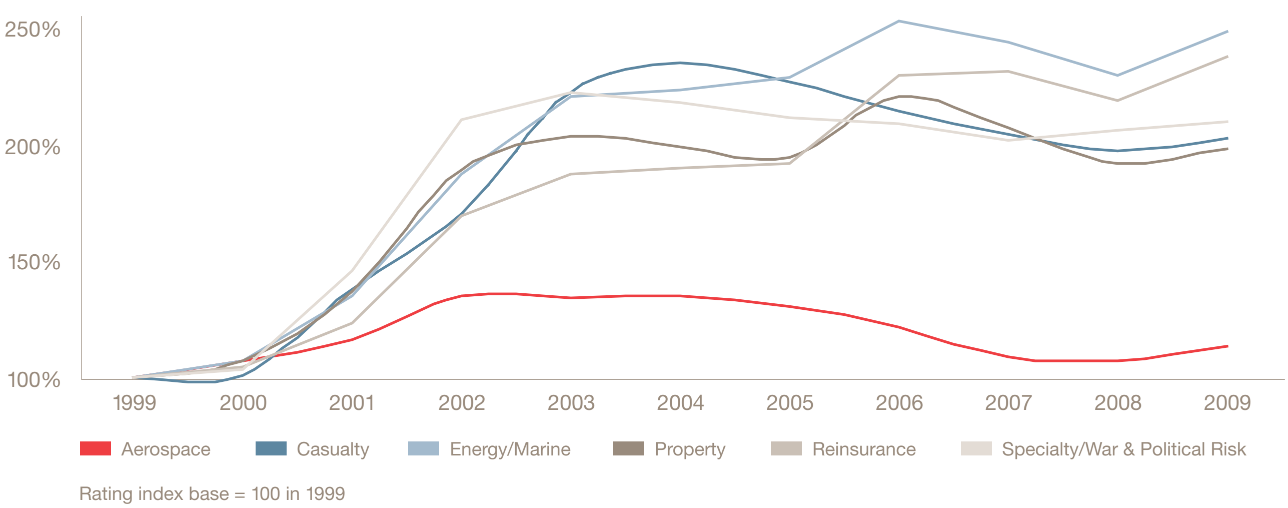
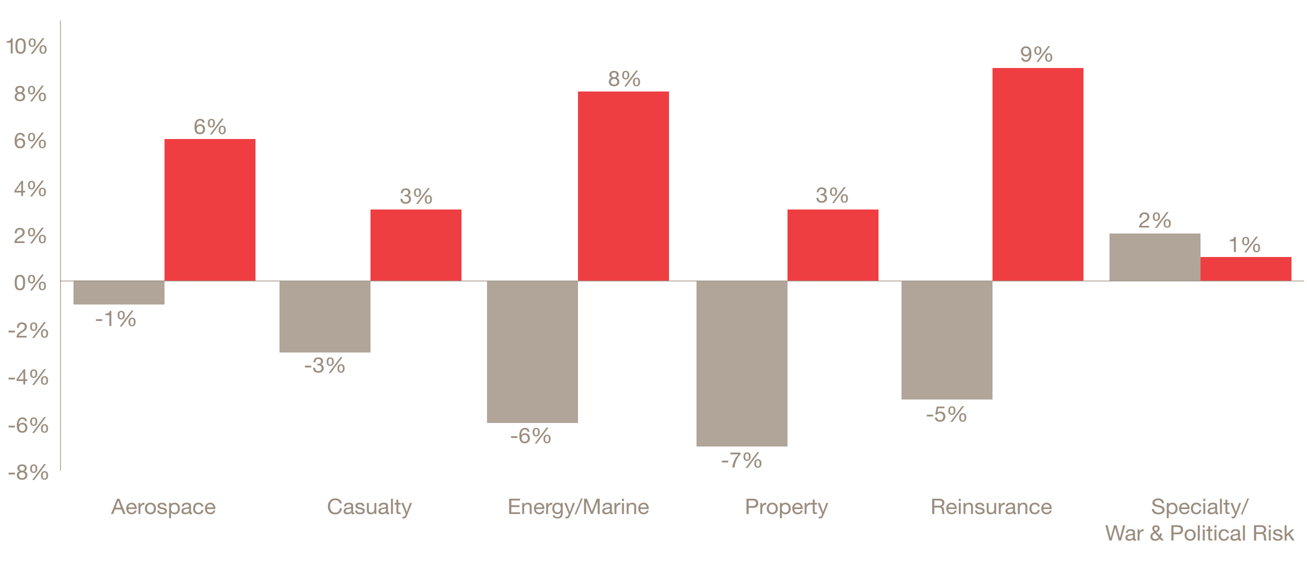


Chart 7: Average weighted premium rate movements by product group 2008-2009



Underwriting Review continued

2009 gross premiums written

Gross premiums written increased by 12 per cent to US$3.7 billion on a constant currency basis. Unadjusted for exchange rate movements, gross premiums written rose by 8 per cent (2008: US$3.4 billion).

Chart 8 illustrates gross written premiums by underwriting hub.

Chart 8: Gross premiums written by underwriting hub 2006-2009 (US$m)

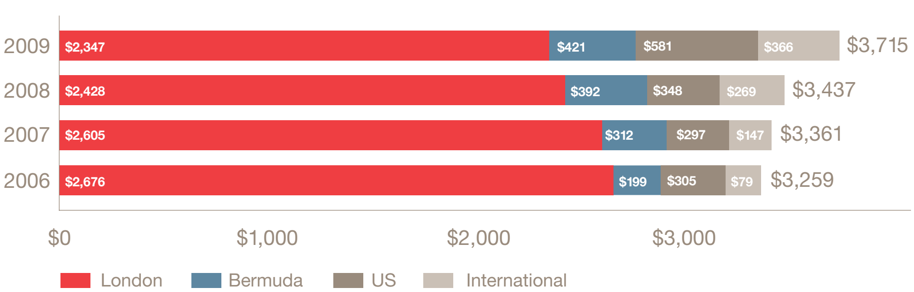
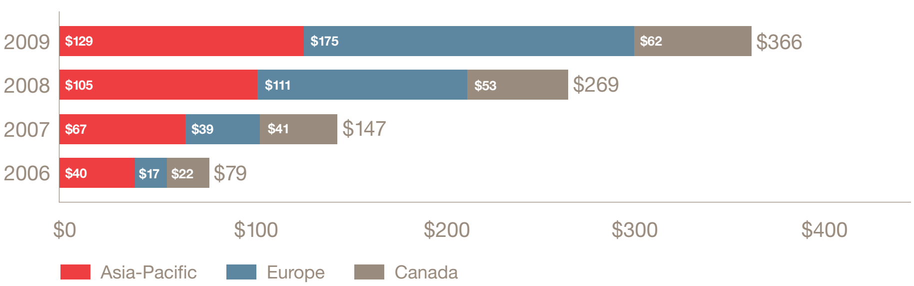


Chart 9: Gross premiums written by international underwriting hub 2006-2009 (US$m)



Gross premiums underwritten by the London underwriting hub decreased by 3 per cent, although volume was broadly flat on a constant currency basis. This performance was expected and is the result of offsetting growth in certain classes and reductions in other classes for which market conditions were less favourable.

Gross premiums written by the non-London hubs – Bermuda, US, Asia-Pacific, Europe and Canada – rose by 37 per cent, reflecting the investment made by the Group in the development of these hubs.

The increase in volume in the Bermuda hub reflects the strong pricing conditions for Property Reinsurance, which is by far the largest class of business written in Bermuda. The volume increases in the US, Asia-Pacific, Europe and Canada reflect the continuing development of these hubs. In each case, volumes increased because of an expansion of the classes of business underwritten by the hub and the addition of new underwriting teams.

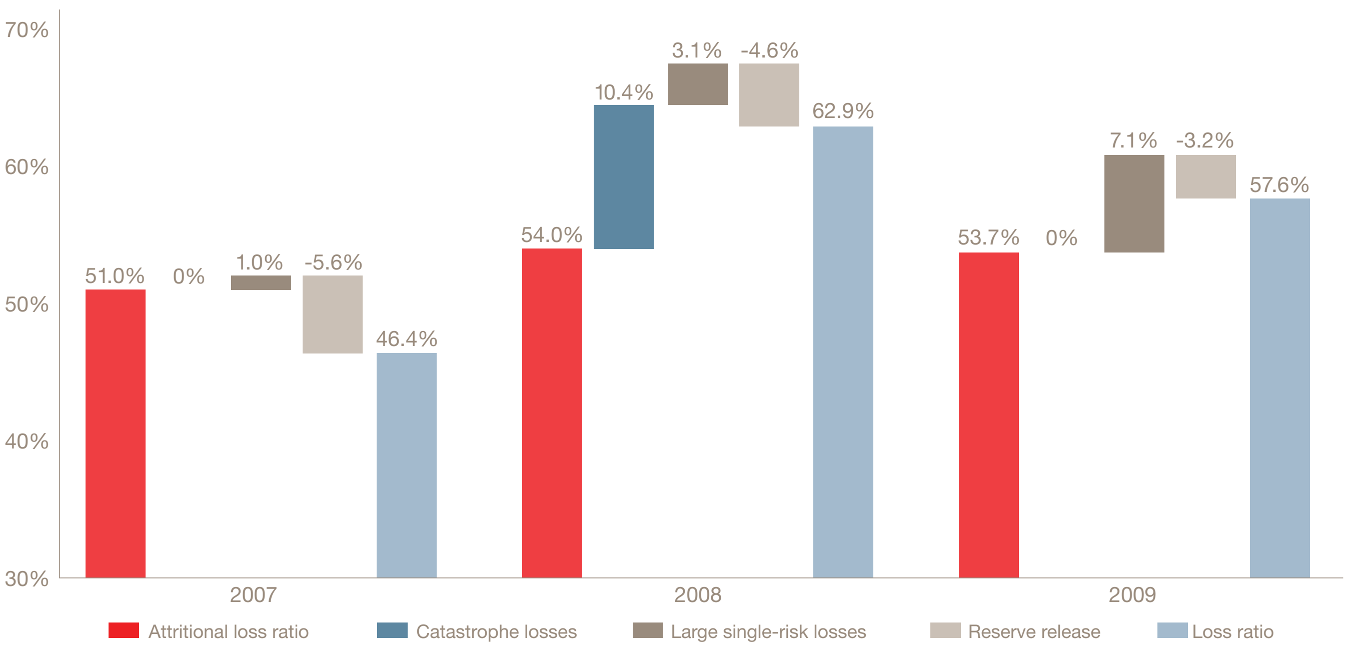
The gross premiums written by the three International hubs – Asia-Pacific, Europe and Canada – are shown in Chart 9. Gross premiums written by these hubs have increased by nearly 400 per cent from 2006 to 2009.

2009 underwriting contribution

Underwriting contribution increased by 43 per cent to a record $651 million (2008: US$454 million), despite the adverse effect on loss ratio arising from increased large single-risk losses.

Large single-risk losses accounted for 7.1 per cent of the 2009 reported loss ratio (see Chart 10). Approximately 50 per cent of this amount comprised claims resulting from the economic crisis which impacted the Group's credit insurance portfolio. Substantially all of these claims were reported and reserved in the first half of 2009.

Chart 10: Loss ratio development 2007-2009



The remaining large single-risk losses were produced by a variety of events, including:

- The June crash of Air France Flight 447 en route from Rio de Janeiro to Paris. The tragedy, which killed 228 passengers and crew, was the worst airline accident in French aviation history and caused the highest number of fatalities since the crash of American Airlines Flight 587 in 2001.
- The series of bushfires that raged in February in the Australian state of Victoria. These bushfires, which included as many as 400 individual fires on one day alone, resulted in the deaths of 173 people and total insured losses approaching US$1 billion.
- The June explosion of a train carrying gas tanks in the Italian town of Viareggio, which killed 32 people.

The attritional loss ratio – which excludes catastrophe and large single-risk losses – improved to 53.7 per cent (2008: 54.0 per cent). This was a good performance, especially as much of the premiums which earned to profits in 2009 related to business written during 2008, when rates were on average 4 per cent lower across the portfolio than in 2009.

The Group therefore is optimistic that good underwriting profitability should continue in 2010 – absent extreme events – as much of the premium that will earn in 2010 was written during 2009 at more attractive rates.

The underwriting contribution and loss ratios produced by the underwriting hubs are shown in Table 11 overleaf.

Underwriting Review continued

Table 11: 2009 underwriting contribution and loss ratios by underwriting hub

US$m	London	Bermuda	US	International	Group
Gross premiums written	2,347	421	581	366	3,715
Net premiums written	1,984	371	487	326	3,168
Net premiums earned	1,891	348	409	270	2,918
Underwriting contribution	397	123	105	26	651
Loss ratio	58.4%	43.0%	56.8%	72.4%	57.6%
Attritional loss ratio	54.6%	41.1%	57.0%	59.2%	53.7%

The majority of the Group's 2009 underwriting contribution – 61 per cent – was produced by the London underwriting hub, which includes the London wholesale business as well as regional UK business.

Lloyd's is the world's largest specialty insurance market. Our leadership position at Lloyd's – the Catlin Syndicate remains the largest syndicate at Lloyd's in terms of premium volume and is a leader in most classes – allows the Group to write an increasingly diversified book of business. During 2008 and 2009, as worries about the creditworthiness of insurers and reinsurers increased, brokers and their clients increasingly favoured syndicated risk placements, whereby more than one insurer or reinsurer underwrites a policy. This development favoured Catlin, as Lloyd's is the world's largest market for syndicated risk placement.

The proportion of underwriting contribution produced by the Group's other underwriting hubs is expected to increase over time as the operations further mature. During 2009, the hubs accounted for 37 per cent of gross premiums written and 39 per cent of underwriting contributions (see Charts 12 and 13).

The Bermuda underwriting hub, which primarily writes Property Reinsurance, produced a strong underwriting contribution due to the lack of catastrophe losses during 2009. This performance was augmented by the further development of other business classes, leading to a more balanced portfolio.

The US hub also performed well as premium volumes and underwriting contribution grew. This was due to the introduction of additional niche classes of business, written by new, experienced underwriting teams with strong existing client bases and following markets, as well as an increase in business written in existing classes as teams gain further traction. In April 2009 Catlin US established a new specialty in General Aviation business, underwritten by a managing agent, which had a significant impact on gross premiums written.

Chart 12: 2009 gross premiums written by underwriting hub

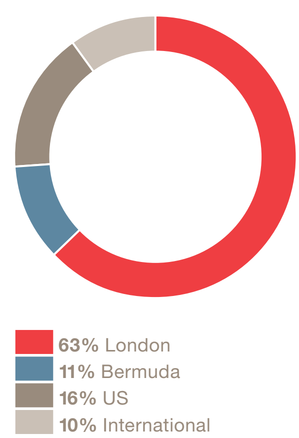
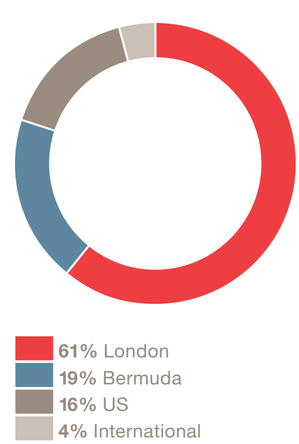


Chart 13: 2009 underwriting contribution by underwriting hub



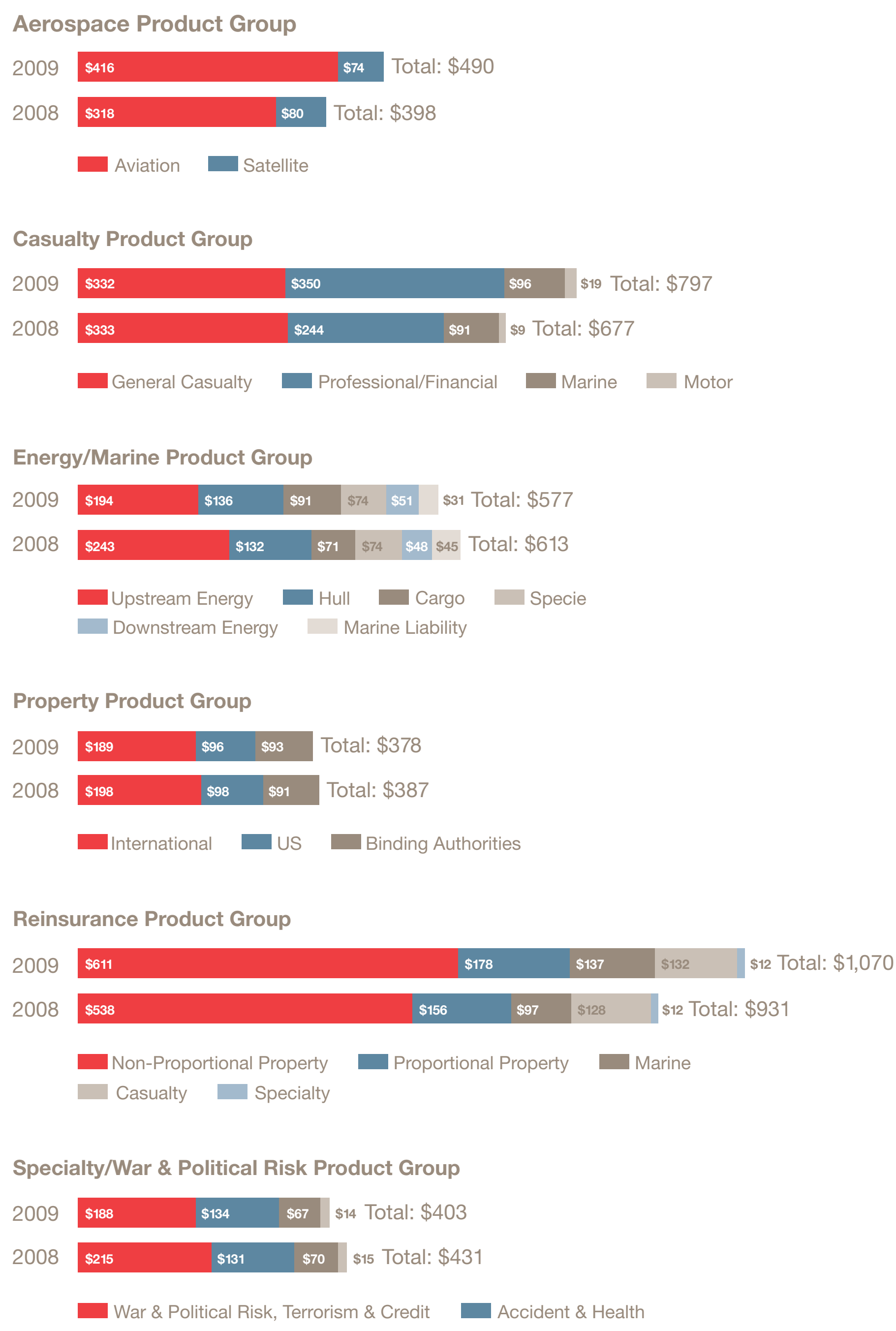
The underwriting contribution from the three International hubs – Asia-Pacific, Europe and Canada – was reduced by large single-risk losses, most notably the Air France and satellite losses which amounted to approximately US$36 million. One of the advantages provided by our hub structure is that individual hubs, despite their smaller volumes of business, can provide on a local basis the full line capacity that Catlin can offer in the London market. This allows Catlin to offer flexibility to clients relating to their access to the Group, but can also lead to more volatile underwriting results at the hub level. If these large single-risk losses are excluded, the international hub's underwriting contribution would have been US$62 million.

Product groups

The Group writes numerous classes of insurance and reinsurance, which are divided into six product groups. The gross premiums written by each product group, divided by major business categories, are shown in Chart 14. Underwriting results for each product group, including underwriting contribution and loss ratios, are shown in Table 15 overleaf.

During 2009 pricing conditions were strongest across catastrophe-exposed classes of business, most notably Property Treaty Reinsurance, Energy and US Property Insurance. In response to market conditions and reflecting the flexibility of Catlin's structure, aggregate capacity was reallocated to business classes where conditions were strongest.

Chart 14: Gross written premiums by product group 2008-2009 (US$m)



Underwriting Review continued

Table 15: 2009 underwriting results by product group (US$m)

	Gross premiums written	Net premiums written	Net premiums earned	Underwriting contribution	Loss ratio	2009 rate change	2008 rate change
Aerospace	490	412	365	77	60%	**6%**	(1%)
Casualty	797	678	648	(27)	86%	**3%**	(3%)
Energy/Marine	577	469	470	98	55%	**8%**	(6%)
Property	378	300	282	56	47%	**3%**	(7%)
Reinsurance	1,070	947	906	376	40%	**9%**	(5%)
Specialty/War & Political Risk	403	385	378	75	61%	**1%**	2%

As a result, gross premiums written by the Reinsurance Product Group increased by 15 per cent, primarily driven by Property Treaty volumes. The combination of increased volume and a benign catastrophe year resulted in an underwriting contribution of $376 million and a 40 per cent loss ratio.

Conversely, gross premiums written decreased for both the Energy/Marine and Property Product Groups. Energy/Marine premium volume reduced as assureds sought to restructure programmes and increase retentions due to tightening conditions in the aftermath of Hurricane Ike. Despite the reduction in catastrophe-exposed business being written within these groups, the Energy/Marine and Property Product Groups produced loss ratios of 55 per cent and 47 per cent, respectively.

Aerospace premium volume increased during 2009 by 23 per cent due to three major factors: the introduction of General Aviation business written by Catlin US; increased rates on Airline business written primarily by the London hub; and the continued development of Aviation as a class of business underwritten by the International hubs.

The Specialty/War & Political Risk Product Group, which includes Catlin's Credit Insurance portfolio, was most impacted by claims produced by the economic crisis. Credit-related volumes were reduced as underlying risk was reassessed.

Strong underlying performance was produced by the Terrorism, Crisis Management, Accident & Health and Bloodstock/Livestock accounts, but the impact of Credit-related large single-risk losses increased the product group's loss ratio to 61 per cent.

The Casualty Product Group's loss ratio and underwriting contribution were impacted by both competitive pricing conditions, particularly for wholesale business underwritten in the London market, and significant large single-risk losses. In the light of poor pricing conditions for these areas of the Casualty portfolio, Catlin since 2007 has reduced volumes and exposures, decreased line sizes, tightened coverage terms and purchased additional reinsurance protection. However, market conditions are favourable for other areas of the Casualty portfolio, particularly for Financial classes and niche Professional lines.

Overall casualty volumes increased by 18 per cent – or US$120 million – in 2009. Approximately two-thirds of this growth came from Financial lines, where pricing has increased following the economic crisis. Most of the remainder was produced from niche and retail classes written by Catlin US, such as Architects & Engineers and Construction Professional Liability lines.

Risk transfer

The goal of Catlin's risk transfer programme is to reduce the Group's earnings volatility and improve capital efficiency. The programme is designed and executed centrally in order to maximise purchasing power.

The key elements of the programme include:

- Non-proportional event and aggregate protection to reduce the impact of large and/or frequent catastrophic events;
- Risk transfer to capital markets to increase the term of protection, diversify and improve greater counterparty financial security, and reduce the volatility in risk transfer costs over time; and
- Proportional and facultative protection to enhance the Group's gross underwriting capacity.

The Group has a number of in-force capital markets risk transfer transactions, which are described in Table 16.

Table 16: Capital market risk transfer transactions

Issuer	Domicile	Perils	Trigger	Expiration	Limit (US$m)	Format
Newton Re Series 2007-1	Cayman	US hurricane and earthquake	Large single events as measured by Property Claims Services	December 2010	$225	Swap
Newton Re Series 2008-1	Cayman	US hurricane and earthquake, European windstorm, Japanese typhoon and earthquake	Annual aggregate reinsurance covering accumulated losses related to Property Treaty Reinsurance	December 2010	$150	Reinsurance

The financial strength of the Group's risk transfer counterparties is of high quality as more of the risk transfer programme is placed with higher-rated and collateralised markets. The financial strength of risk transfer partners is monitored on a regular basis by the Group's Reinsurance Security Committee, which is independent from the reinsurance purchasing team.

2010 Outlook

The good financial performance during 2009 by property/casualty insurers and reinsurers, along with an improvement in the availability of capital as the economic crisis recedes, is increasing carriers' risk appetite and attracting new insurers to the broad marketplace.

This increased capacity is affecting pricing during 2010, most notably across direct classes of business. Property reinsurance rates, which during 2009 were at or near historic highs, are seeing experience-related rate reductions in the aftermath of a benign catastrophe year. However, the reductions are being offset to a degree by the smaller number of counterparties now offering reinsurance capacity.

Renewals at 1 January 2010 were disciplined, with renewal pricing broadly flat across the Group. This trend was particularly true for Property Treaty Reinsurance, which dominates the 1 January renewals. Capacity-related reductions for US Property Treaty business were offset by experience-driven increases on International treaties, most notably in Europe.

Across the portfolio average weighted premium rates increased by approximately 1 per cent for business incepting in January.

Despite competitors' increased risk appetites, Catlin's signings remained strong, particularly in London where Property Treaty signings were at a historic high level.

Market pricing for certain longer-tail business classes remains inadequate, and signs of a market correction are not yet evident. However, the Group believes that it is only a matter of time before the market reconsiders the profitability of these classes and adjusts pricing accordingly. In the meantime, Catlin will continue to exercise underwriting discipline in these areas and wait for adequate margin to return.

Gross premiums written as at 31 January 2010 increased 8 per cent compared with the previous year on a constant exchange rate basis (31 January 2009: 8 per cent increase); the increase was 11 per cent on an as reported basis.

As the market enters a softer phase of the underwriting cycle, Catlin recognises that it is increasingly important to adhere to the three fundamentals of profitable underwriting – access to business, accurate pricing and portfolio management. Our underwriting philosophy and strategy are designed to differentiate Catlin from our peers and provide the Group with further opportunities for diversified and profitable growth.

Underwriting Hubs: London

Gross premiums written (US$m)

$2,347

Offices

8

Employees

724

Catlin began operations at Lloyd's of London in 1984.

More than 25 years later, Catlin manages the Catlin Syndicate, the largest syndicate at Lloyd's in terms of gross premiums written. Catlin UK (Catlin Insurance Company (UK) Ltd.) began operations in 2004 and underwrites many of the same business classes as the Catlin Syndicate as well as providing coverage for UK businesses and professionals.

Catlin is a recognised leader in the London market for many classes of business. Our team of underwriters, actuaries and award-winning claims professionals are renowned for their innovation, technical skill and ambition to provide the highest levels of service.

Catlin continues to broaden its London/UK activities and in 2009 established a life insurance syndicate at Lloyds's.

Whilst Catlin has expanded its international reach, London/UK remains Catlin's largest underwriting hub, accounting for more than 60 per cent of premium volume.

Underwriting Hubs: Bermuda

Gross premiums written (US$m)

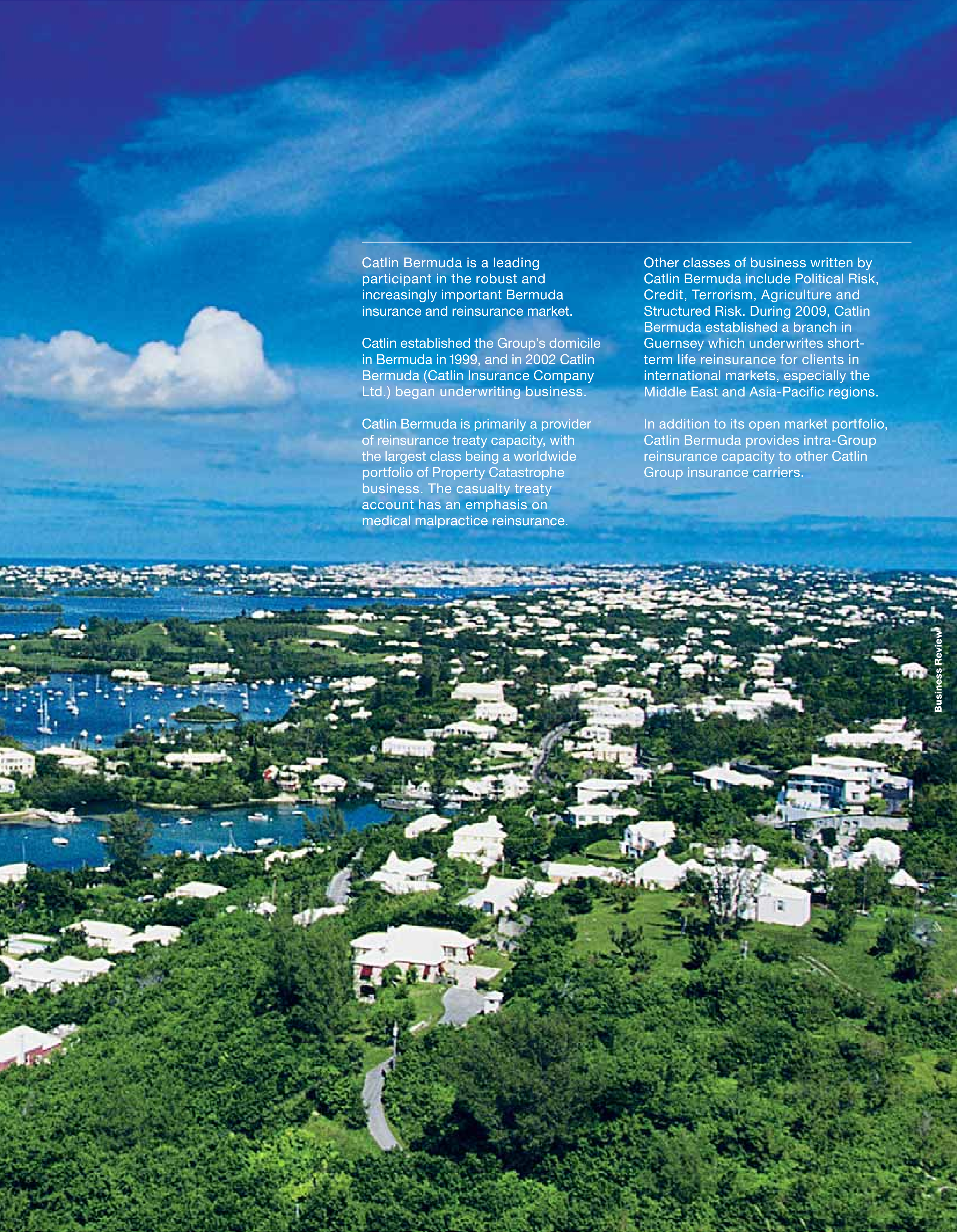
$421

Offices

1

Employees

61



Catlin Bermuda is a leading participant in the robust and increasingly important Bermuda insurance and reinsurance market.

Catlin established the Group's domicile in Bermuda in 1999, and in 2002 Catlin Bermuda (Catlin Insurance Company Ltd.) began underwriting business.

Catlin Bermuda is primarily a provider of reinsurance treaty capacity, with the largest class being a worldwide portfolio of Property Catastrophe business. The casualty treaty account has an emphasis on medical malpractice reinsurance.

Other classes of business written by Catlin Bermuda include Political Risk, Credit, Terrorism, Agriculture and Structured Risk. During 2009, Catlin Bermuda established a branch in Guernsey which underwrites short-term life reinsurance for clients in international markets, especially the Middle East and Asia-Pacific regions.

In addition to its open market portfolio, Catlin Bermuda provides intra-Group reinsurance capacity to other Catlin Group insurance carriers.

Underwriting Hubs: United States

Gross premiums written (US$m)

$581

Offices

16

Employees

290

Catlin US has grown in several years to become one of the leading specialty insurers and reinsurers in the United States.

Catlin's London-based operations always wrote a large volume of business for US assureds, but Catlin was one of the first Lloyd's underwriters to target US business not placed in the London market.

The US underwriting hub has grown from two offices acquired by Catlin in 1999 to 16 offices writing more than US$550 million in annual gross premiums. Over time Catlin US has become a significant contributor to the Group's overall results.

Catlin US binds business on both an admitted and non-admitted basis on behalf of two US-based insurance carriers as well as the Catlin Syndicate and Catlin UK. It writes business in all of Catlin's product groups, including a significant book of general aviation risks. These diverse offerings are largely uncorrelated with the business written by other Catlin underwriting hubs.

Underwriting Hubs: Asia-Pacific

Gross premiums written (US$m)

$129

Offices

8

Employees

149

Catlin Asia-Pacific celebrated its tenth anniversary during 2009.

Catlin established its first two offices outside its London base in 1999 in Singapore and Kuala Lumpur. Ten years later, Catlin Asia-Pacific, headquartered in Singapore, operates from eight offices across Asia and Australia. The hub has grown in step with the continuing development of the Asia-Pacific insurance market, where it is considered a leading player.

During 2009, Catlin Asia-Pacific established a representative office in Mumbai to strengthen Catlin's relationships in the rapidly changing Indian market. This follows the successful establishment of a Tokyo representative office the previous year. In early 2010, an office in Melbourne was opened to complement Catlin's existing Sydney office.

Catlin has also strengthened its presence in China, with offices in Hong Kong and Shanghai/Pudong. Catlin is the largest participant in Lloyd's China.

Over the years, the Group has expanded the business written by the Asia-Pacific hub to include most of the Catlin product offerings.

Catlin's Kuala Lumpur office also serves as the Group's shared services centre where data entry and other services are provided to Catlin offices worldwide.

Underwriting Hubs: Europe

Gross premiums written (US$m)*

$175

Offices*

12

Employees*

113

*Includes Latin American representative offices

Starting with a single office in Cologne in 2003, Catlin Europe has grown during the past seven years to become a leading source of specialty insurance and reinsurance in Europe.

Catlin's European hub has expanded to include 12 European offices in ten countries, including operations in major insurance centres such as Paris, Rome and Zurich. Catlin Europe also supports the Latin American representative offices operated by the group in Sao Paulo and Bogatá.

During 2009 Catlin opened European offices in Rome, which writes various classes of reinsurance, and Bergen, which specialises in Aquaculture risks.

Catlin Europe writes more than 20 classes of insurance, plus major lines of reinsurance. Business is supported across the continent by experts based in selected Catlin offices.

Underwriting Hubs: Canada

Gross premiums written (US$m)

$62

Offices

2

Employees

43

Catlin Canada operates in the world's second largest country by land mass and is poised to take advantage of the vast opportunities offered by the Canadian insurance marketplace.

Catlin established its Canadian headquarters in Toronto in 2005, followed by a second office in Calgary opened during 2006. The two offices serve the entirety of Canada. Due to the country's vast size, a growing amount of the business underwritten by Catlin Canada is produced outside the offices by Catlin staff who are out on the road for a significant proportion of their time.

Catlin underwrites a full complement of insurance products for the Canadian market, including General Aviation, Short-Tail Casualty and a growing Marine account. Catlin Canada also offers risk management services to mid-size clients.

Business Segments

Highlights:

- Catlin defines its financial reporting segments by regulated underwriting entity
- The Catlin Syndicate wrote 67 per cent of gross premiums in 2009 excluding intra-Group reinsurance
- The Catlin Syndicate wrote 42 per cent of net premiums including intra-Group reinsurance

Catlin defines its financial reporting segments by regulated underwriting entity. The four reporting segments are:

- Catlin Syndicate, which comprises direct insurance and reinsurance business underwritten by the Catlin Syndicate at Lloyd's of London;
- Catlin Bermuda (Catlin Insurance Company Ltd.), which primarily underwrites reinsurance business, including intra-Group reinsurance;
- Catlin UK (Catlin Insurance Company (UK) Ltd.), which primarily underwrites direct insurance; and
- Catlin US, which underwrites specialty insurance and reinsurance in the United States through two US-domiciled insurers: Catlin Insurance Company Inc., which writes on an admitted basis, and Catlin Specialty Insurance Company Inc., which writes non-admitted business. Whilst Catlin US also underwrites business on behalf of the Catlin Syndicate and Catlin UK, this business is not included in the Catlin US reporting segment.

Catlin also reports financial results for business based on its underwriting hubs: London, Bermuda, US and International (comprising Asia-Pacific, Europe and Canada). Catlin has historically reported financial results based on regulated underwriting entity and these results are regularly reviewed by management.

Table 1 illustrates how the business produced by the underwriting hubs is apportioned to the financial reporting segments. Some hubs underwrite on behalf of more than one legal entity.

Comparisons of gross and net premiums written for the four financial reporting segments in 2009 and 2008 are shown in Table 2.

Table 1: Gross written premiums by underwriting hubs as reflected in reporting segments (US$m)

	Underwriting hub				
	London	Bermuda	US	International	Total
Catlin Syndicate	1,995	–	239	262	2,496
Catlin Bermuda	–	421	–	–	421
Catlin UK	352	–	13	104	469
Catlin US	–	–	329	–	329
	2,347	421	581	366	3,715

Table 2: Gross and net premiums written by business segments in 2009 and 2008 2009 (US$m)

2009 US$m	Gross premiums written excluding intra-Group reinsurance	Intra-Group reinsurance	Gross premiums written including intra-Group reinsurance	Net premiums written excluding intra-Group reinsurance	Net premiums written including intra-Group reinsurance
Catlin Syndicate	2,496	6	2,502	2,143	1,337
Catlin Bermuda	421	1,232	1,653	371	1,603
Catlin UK	469	–	469	397	166
Catlin US	329	–	329	257	62
Intra-Group reinsurance	–	–	(1,238)	–	–
Total	**3,715**	**1,238**	**3,715**	**3,168**	**3,168**
2008 US$m					
Catlin Syndicate	2,416		2,416	1,733	956
Catlin Bermuda	392	1,062	1,454	331	1,392
Catlin UK	487		487	425	230
Catlin US	142		142	122	33
Intra-Group reinsurance	–		(1,062)	–	–
Total	**3,437**	**1,062**	**3,437**	**2,611**	**2,611**

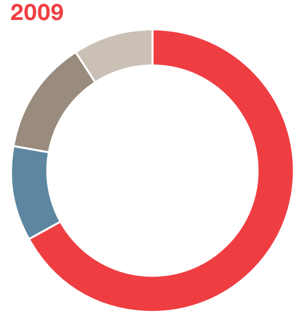
The Catlin Syndicate wrote 67 per cent of the Group's gross premiums in 2009 excluding intra-Group reinsurance (2008: 70 per cent). This decrease reflects the reduction in premium volume written by the Catlin Syndicate during 2009, attributable to exchange rate fluctuations, along with the increase in gross premiums written relating to the other three segments (see Chart 3).

The Catlin Syndicate wrote 42 per cent of the Group's net premiums written including intra-Group reinsurance (2008: 37 per cent), reflecting the cessation at 31 December 2008 of the quota share reinsurance provided to the Catlin Syndicate by some of the third-party Names that had formerly provided capital to Wellington Syndicate 2020. The percentage of net premiums written including intra-Group reinsurance by Catlin Bermuda decreased to 51 per cent in 2009 (2008: 53 per cent), even though the segment's net premium volume increased by 15 per cent (see Chart 4).

Additional information and analysis regarding the business segments can be found in Note 3 to the Financial Statements.

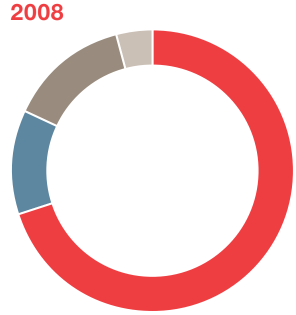
Chart 3: Gross premiums written by segment in 2009 and 2008 (%)*

2009



67% Catlin Syndicate
11% Catlin Bermuda
13% Catlin UK
9% Catlin US

2008

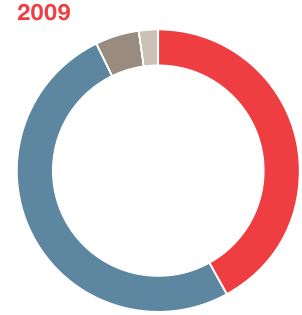


70% Catlin Syndicate
12% Catlin Bermuda
14% Catlin UK
4% Catlin US

*Excluding intra-Group reinsurance

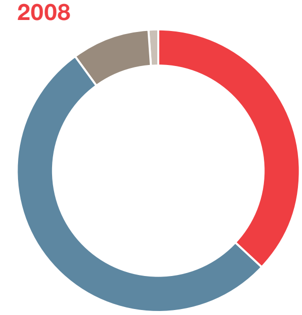
Chart 4: Net premiums written by segment in 2009 and 2008 (%)*

2009



42% Catlin Syndicate
51% Catlin Bermuda
5% Catlin UK
2% Catlin US

2008



37% Catlin Syndicate
53% Catlin Bermuda
9% Catlin UK
1% Catlin US

*Including intra-Group reinsurance

Financial Review

Highlights:

- Catlin increased shareholder value and policyholder security during 2009
- Both the loss ratio and expense ratio decreased compared with 2008
- Catlin maintains a strong and efficient level of capital consistent with risk appetite
- Stockholders' equity increased by 33 per cent to US$ 3.3 billion

The following pages contain commentary on Catlin's consolidated financial statements for the year ended 31 December 2009.

Consolidated Results of Operations

Set out in Table 1 are the Consolidated Results of Operations for the 2009 year with comparison to the 2008 results.

Catlin's strong financial performance during 2009 included record pre-tax profits and net income, compared with an operating loss in 2008.

Contributing to the Group success in 2009 were:

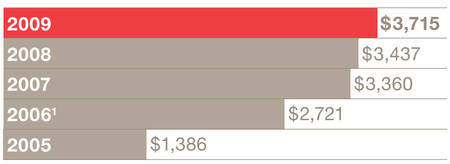
- Substantially improved underwriting conditions. Average weighted premiums rates increased by 6 per cent across Catlin's portfolio of business, compared with an average rate decrease of 4 per cent in 2008.
- A significant improvement in the loss ratio, leading to a higher underwriting contribution. The Group's loss ratio decreased to 57.6 per cent compared to 62.9 per cent in 2008 when Catlin reported losses of approximately US$250 million (net of reinsurance and reinstatement premiums) arising from Hurricanes Ike and Gustav. Catlin did not incur any catastrophe losses during 2009, although large single-risk losses increased, in part due to credit losses sustained in the first half of the year.

Table 1: Consolidated Results of Operations

US$m	2009	2008	% change
Revenues			
Gross premiums written	**3,715**	3,437	8
Reinsurance premiums ceded	**(547)**	(826)	(34)
Net premiums written	**3,168**	2,611	21
Change in unearned premiums	**(250)**	(15)	NM
Net premiums earned	**2,918**	2,596	12
Net investment return	**414**	(91)	NM
Change in fair value of catastrophe swaps	**(31)**	(13)	138
Net realised gains/(losses) on foreign currency exchange	**30**	(21)	NM
Other income	**4**	15	(73)
Total revenues	**3,335**	2,486	34
Expenses			
Losses and loss expenses	**1,681**	1,632	3
Policy acquisition costs	**586**	510	15
Administrative and other expenses	**449**	339	32
Financing costs	**16**	18	(11)
Total expenses	**2,732**	2,499	9
Income/(loss) before income taxes	**603**	(13)	NM
Income tax (expense)/benefit	**(50)**	10	NM
Net income/(loss)	**553**	(3)	NM
Preferred share dividend	**(44)**	(44)	–
Net income/(loss) available to common stockholders	**509**	(47)	NM
Loss ratio[1]	**57.6%**	62.9%	
Expense ratio[2]	**31.5%**	32.0%	
Combined ratio[3]	**89.1%**	94.9%	
Tax rate[4]	**8.3%**	NM	
Return on net tangible assets[5]	**33.2%**	(2.8%)	
Return on equity[6]	**24.3%**	(1.9%)	

NM Not meaningful
[1] Calculated as losses and loss expenses divided by net premiums earned
[2] Calculated as the total of policy acquisition costs, most administrative expenses and other expenses divided by net premiums earned; financing expenses and restructuring costs, profit-related bonus, employee share option schemes and certain Group corporate costs are not included in the calculation
[3] Total of loss ratio plus expense ratio
[4] Calculated as income tax (expense)/benefit divided by income/loss before income taxes
[5] Calculated as net income/(loss) available to common stockholders divided by net tangible assets (opening stockholders' equity (excluding preferred shares) adjusted for capital issued during the year less intangible assets and associated deferred tax)
[6] Calculated as net income/(loss) available to common stockholders divided by opening stockholders' equity (excluding preferred shares) adjusted for capital issued during the year

Chart 2: Gross premiums written (US$m)



[1]Catlin and Wellington combined

– A rebound in investment performance. Total investment return in 2009 amounted to 5.9 per cent, compared with the negative return of 1.4 per cent in 2008.

The following commentary compares Catlin's 2009 financial results with the results for 2008.

Gross premiums written

Gross premiums written increased by 8 per cent to US$3.7 billion (2008: US$3.4 billion). The increase on a constant currency basis was 12 per cent. Gross premiums written by the Bermuda, US, Asia-Pacific, European and Canadian underwriting hubs increased substantially, rising by 36 per cent to US$1.4 billion (2008: US$1.0 billion). These underwriting hubs accounted for 37 per cent of total gross premiums (2008: 29 per cent). Gross premiums written by the London underwriting hub decreased by 3 per cent on a reported basis, as was expected, although volume remained broadly constant if foreign exchange movements are excluded.

Rates improved during the period for nearly all classes of business underwritten by Catlin, with average weighted premium rates rising by 6 per cent; average weighted premiums rates decreased by 3 per cent for business incepting in 2008. Rates increased by a weighted average of 10 per cent during 2009 for catastrophe-exposed business classes, whilst non-catastrophe rates increased by a weighted average of 3 per cent.

Seventy-six per cent of the gross premiums written were denominated in US dollars, 12 per cent in sterling (including convertible currencies) and 12 per cent in other currencies.

Table 3: Reinsurance premiums ceded

US$m	2009	Percentage of GPW	2008	Percentage of GPW
Third-party protections	**523**	**14.1%**	569	16.6%
Names' quota share	**24**	**0.6%**	257	7.5%
	547	**14.7%**	826	24.0%
Element of multi-year contracts relating to future periods	**(14)**	**(0.4%)**	(66)	(1.9%)
	533	**14.3%**	760	22.1%

Reinsurance

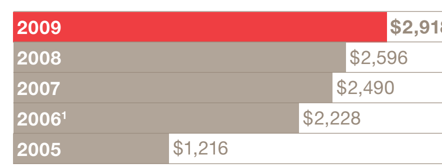
Reinsurance premiums ceded decreased by US$279 million during the year to US$547 million (2008: US$826 million). The decrease was primarily attributable to the cessation at 31 December 2008 of the quota share reinsurance provided to the Catlin Syndicate by some of the third-party Names that had formerly provided capital to Wellington Syndicate 2020. The cessation of this quota share reinsurance reduced reinsurance premiums ceded in 2009 by US$233 million.

Reinsurance premiums ceded are analysed in Table 3. Third-party reinsurance costs expressed as a percentage of written premiums were approximately 9 percentage points lower than in 2008. The reinsurance programme for 2008 included a number of multi-year contracts covering 2008 and future years. The element of the multi-year contracts which related to future periods was approximately US$14 million in 2009 (2008: US$66 million).

Net premiums earned

Net premiums earned increased by 12 per cent to US$2.9 billion (2008: US$2.6 billion); the increase was 17 per cent on a constant currency basis. This increase, which was in line with the Group's expectations, was partly due to increased gross premiums written but also due to the embedded growth arising from the Wellington acquisition, specifically the cessation of the quota share reinsurance of the Catlin Syndicate.

Chart 4: Net premiums earned (US$m)



[1]Catlin and Wellington combined

The benefits of embedded growth will continue for two additional years, increasing net premiums earned by an estimated US$120 million in 2010 and an additional US$10 million in 2011.

Losses and loss expenses

The Group incurred no catastrophe losses in 2009, although this was partially offset by a significant increase in large single-risk losses. Overall, the loss ratio decreased to 57.6 per cent (2008: 62.9 per cent). In 2008 losses relating to Hurricanes Ike and Gustav amounted to approximately US$250 million net of reinsurance and reinstatement premiums, increasing the loss ratio by 10.4 percentage points.

The decrease in the Group's loss ratio during 2009 is analysed in Chart 5 overleaf.

Financial Review continued

Chart 5: Analysis of loss ratio

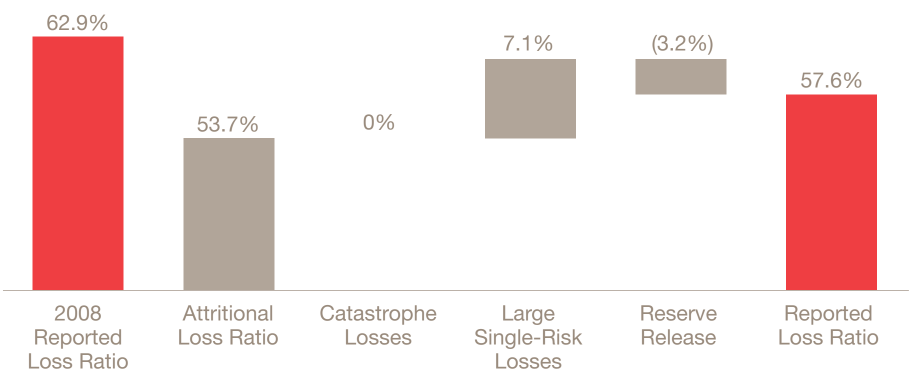


Table 6: Analysis of loss ratio

US$m	2009	Components of expense ratio	2008	Components of expense ratio
Policy acquisition costs	**586**	**20.1%**	510	19.7%
Administrative expenses				
Underwriting hub expenses	**194**	**6.7%**	187	7.2%
Group expenses	**90**	**3.0%**	89	3.4%
Lloyd's expenses	**49**	**1.7%**	44	1.7%
Other expenses:				
Employee incentives	**86**	**–**	(8)	–
Other administrative expenses	**30**	**–**	27	–
	1,035	**31.5%**	849	32.0%

Large single-risk losses increased the loss ratio by 7.1 percentage points in 2009 (2008: 3.1 points). Approximately half of the large single-risk losses were credit insurance claims arising from the economic crisis that were reported and reserved in the first half of the year. Without the credit losses, large single-risk loss experience would have been broadly in line with the 2008 experience.

The Group released US$94 million from prior year loss reserves during 2009, an amount equating to 2 per cent of opening reserves (2008: US$118 million or 3 per cent). The majority of the reserve releases related to the 2005 to 2007 accident years.

Policy acquisition costs, administrative and other expenses

The expense ratio amounted to 31.5 per cent (2008: 32.0 per cent). The components of the expense ratio and other expenses are analysed in Table 6.

Catlin has amended the method used to calculate the expense ratio to exclude costs of profit-related bonuses, employee share option schemes and certain Group corporate costs. The revised methodology allows the Group's expense and combined ratios to give a closer representation of the costs of underwriting. The expense and combined ratios for 2008 have been restated using this methodology.

The policy acquisition cost ratio increased to 20.1 per cent due to changes in the mix of business underwritten by the Group (2008: 19.7 per cent).

Administrative expenses represent 11.4 percentage points of the overall expense ratio (2008: 12.3 percentage points).

As a result of the net profits reported by the Group in 2009, management and staff bonuses – which are based on both income before tax and the return on equity achieved by the Group – were significantly higher than in 2008. In addition, the valuation of entitlements under share option schemes also increased during 2009. Finally, a significant part of administrative and other expenses are incurred in sterling. On average, sterling was weaker against the dollar during 2009 compared with 2008, producing savings in dollar terms.

Other administrative expenses include Group overheads and are not included in the calculation of the expense ratio.

Financing costs also are excluded from the expense ratio. These costs comprise interest and other costs in respect of bank financing, together with costs of subordinated debt. Dividends relating to preferred shares are treated as an appropriation of net income and are not included in financing costs.

Underwriting contribution

The combined ratio was 89.1 per cent (2008: 94.9 per cent). This represents a record underwriting contribution of US$651 million, a 43 per cent increase (2008: US$454 million). Of the total underwriting contribution, 61 per cent was produced by the London underwriting hub; 39 per cent was produced by the Group's other underwriting hubs.

Table 7: Total investment return

US$m	2009	2008
Total investments and cash as at 31 December	**7,693**	5,933
Investment income	**187**	238
Net gains/(losses) on investments in funds	**141**	(212)
Net gains/(losses) on fixed maturities and short-term investments	**91**	(111)
Total investment return	**419**	(85)
Investment expenses	**(5)**	(6)
Net investment return	**414**	(91)

Total investment return
Total return on average investments amounted to a record 5.9 per cent (2008: 1.4 per cent loss). Table 7 summarises the total return on investments and cash during the year.

Detailed information about investment performance appears on page 61.

Change in fair value of catastrophe swaps
As part of its third-party reinsurance arrangements, the Group has entered into catastrophe swap arrangements with certain special purpose entities. Information about these arrangements is contained in the Underwriting Review and Note 9 to the Financial Statements.

The change in fair value of these swaps during 2009 is shown in Table 8.

The fair value of the swaps is based on the inverse of the value of the bonds issued by the special purpose entities. The value of the bonds has increased in the current economic climate, and therefore the value of the swaps has reduced.

Net realised gains/(losses) on foreign currency
Catlin reported a gain on foreign currency exchange amounting to US$30 million (2008: US$21 million loss). This gain was primarily due to the 11 per cent rise in the sterling-US dollar exchange rate to 1.62 at year-end 2009 (2008: 1.46). Catlin reports its financial results in US dollars but undertakes significant sterling transactions. It also owns operating and financing subsidiaries which have accounting (functional) currencies which are not dollars, the largest of which is sterling. The Group therefore incurs net exchange gains on transactions and open balances, including net investments, during a period of sterling strengthening.

Table 8: Change in fair value of derivatives

US$m	2009	2008
Premiums in respect of catastrophe swaps	**(26)**	(28)
Change in value of catastrophe swaps	**(5)**	15
	(31)	(13)

Income tax (expense)/benefit
The Group's effective tax rate was 8.3 per cent (2008: $10 million tax benefit). The principal driver of the effective tax rate continues to be the jurisdiction of the underwriting entities in which profits and losses arose.

Net income/(loss) available to common stockholders
After payment of dividends amounting to US$44 million to holders of Catlin's non-cumulative perpetual preferred shares (2008: US$44 million), net income available to common shareholders amounted to a record US$509 million (2008: US$47 million loss). The return on net tangible assets was 33.2 per cent (2008: 2.8 per cent loss); the return on equity amounted to 24.3 per cent (2008: 1.9 per cent loss).

Financial Review continued

Table 9: Summary of Consolidated Balance Sheet

US$m	2009	2008	% change
Investments and cash	**7,693**	5,933	30
Securities lending collateral	**15**	33	(55)
Intangible assets and goodwill	**718**	651	10
Premiums and other receivables	**1,133**	1,080	5
Reinsurance recoverable	**1,441**	1,226	18
Deferred acquisition costs	**292**	247	18
Other assets	**390**	489	(20)
Loss reserves	**(5,392)**	(4,606)	17
Unearned premiums	**(1,724)**	(1,536)	12
Subordinated debt	**(97)**	(98)	(1)
Reinsurance payable	**(653)**	(476)	37
Other liabilities	**(523)**	(441)	19
Securities lending payable	**(15)**	(33)	(55)
Stockholders' equity	**3,278**	2,469	33

Balance Sheet

A summary of the Group's balance sheet at 31 December 2009 and 2008 is set out in Table 9.

The major items on the balance sheet are analysed below.

Investments and cash

Investments and cash increased by US$1.8 billion or 30 per cent to US$7.7 billion (2008: US$5.9 billion).

The increase includes the Rights Issue proceeds of approximately $289 million and the reinsurance to close of Wellington Syndicate 2020 into the Catlin Syndicate in early 2009, which resulted in a transfer of invested assets of approximately $460 million. The remaining increase is related to positive investment performance and cash flow from the Group's insurance operations.

Securities lending

Catlin has continued a securities lending arrangement which began in early 2006. Under this arrangement certain of the fixed maturity investments are loaned to third parties through a lending agent. The Group maintains control over the securities it lends, retains the earnings and cash flows associated with the loaned securities, and receives a fee from the borrower for the temporary use of the securities. Collateral in the form of cash, government securities and letters of credit is required to be established by the borrower at a minimum rate of 102 per cent of the market value of the loaned securities; this is monitored and maintained by the lending agent.

There was a reduced level of lending during the year, largely reflecting lower fair values as well as reduced holdings by the Group of the types of securities which are commonly lent.

Intangible assets and goodwill

The increase in intangible assets and goodwill during the year resulted primarily from foreign exchange movements since the majority of the intangibles and goodwill are denominated in sterling and arose on the acquisition of Wellington. Table 10 sets out the principal components of this asset.

Table 10: Intangible assets and goodwill

US$m	2009	2008
Purchased Lloyd's syndicate capacity	**634**	571
Distribution network	**2**	2
Surplus lines licences	**6**	7
Goodwill on acquisition of Wellington	**62**	57
Other goodwill	**14**	13
	718	651

Catlin is required under US GAAP to establish a liability for deferred taxation in relation to the value of intangible assets and goodwill arising on the Wellington acquisition. This liability is included in 'other liabilities' and amounts to US$95 million (2008: US$87 million), with the increase in value due to foreign exchange movements.

Premiums and other receivables

Premiums and other receivables increased during 2009 by US$53 million or 5 per cent. This growth is in line with the increase in premiums written during the year compared with 2008.

Reinsurance recoverable

Amounts receivable, and anticipated recoveries from reinsurers, rose by US$215 million or 18 per cent. Reinsurance recoverables represent 44 per cent of stockholders' equity (2008: 50 per cent).

Deferred acquisition costs

Deferred acquisition costs represented 17 per cent of unearned premiums at 31 December 2009 (2008: 16 per cent).

Loss reserves

Gross loss reserves have increased by US$786 million or 17 per cent during 2009, primarily due to the reinsurance to close of Wellington Syndicate 2020 into the Catlin Syndicate.

The Group has seen a surplus from prior accident years in aggregate. More than 90 per cent of net reserves relate to the 2003 and later accident years.

The Group released US$94 million from prior year loss reserves during 2009, an amount equal to approximately 2 per cent of opening net reserves.

Unearned premiums

Unearned premiums have increased by US$188 million or 12 per cent during the year.

Notes payable and subordinated debt

The subordinated debt represented a total of US$68 million and €18 million variable rate unsecured subordinated notes. The interest payable on the notes is based on market rates for three-month deposits in US dollars plus a margin of up to 317 basis points. The notes, which are redeemable in 2011 at the earliest, qualify as 'Lower Tier II' capital under the rules of the Financial Services Authority in the UK. There was no change to the subordinated debt during the year, and the balance sheet movement primarily represented foreign exchange revaluation.

Reinsurance payable

Reinsurance payable has increased by US$177 million – or 37 per cent – compared with 31 December 2008. The December 2008 balance includes a US$68 million negative balance for amounts due following the commutation of a whole account stop-loss contract relating to the Catlin Syndicate. In addition, the amount payable on the quota share reinsurance provided by the former Wellington Names increased by US$19 million. This contract is on a funds withheld basis and therefore the balance increases until the contract is commuted and settled.

Stockholders' equity

Chart 11 shows the principal components of the change in stockholders' equity during the year:

The currency translation gain in 2009 is analysed in Table 12.

Chart 11: Change in stockholders' equity

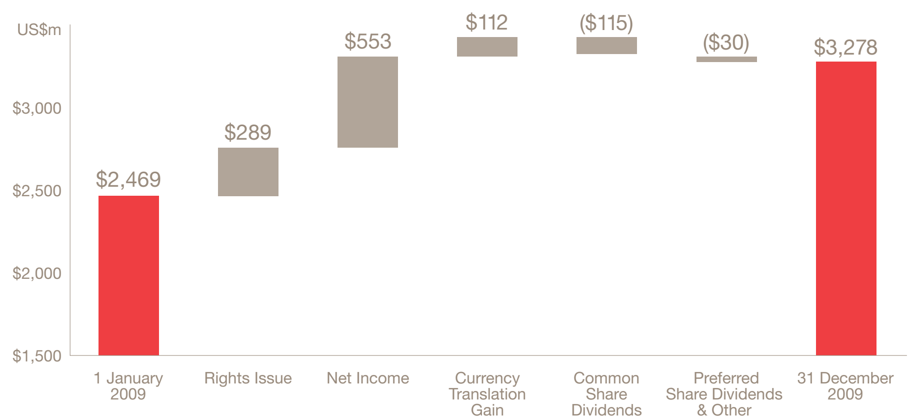


Table 12: Analysis of currency translation gain/(loss)

US$m	2009	2008
Foreign exchange, excluding intangible assets	**52**	(125)
Intangible assets – revaluation gains/(losses) on sterling balances	**60**	(200)
	112	(325)

Table 13: Analysis of net assets by currency

US$m	Amount	US$	Sterling	Other	Total
Net tangible assets[1]	2,066	76%	18%	6%	100%
Intangible assets	622	3%	97%	–	100%
Net assets[1]	2,688	59%	36%	5%	100%

[1]Excludes preferred shares

The currency translation gain in 2009 resulted from the significant portion of the Group's stockholders' equity being represented by sterling entities within the Group. Sterling entities such as the Catlin Syndicate, Catlin UK and certain intermediate holding companies comprised a significant portion of Catlin's consolidated stockholders' equity. A currency translation gain arose when the sterling net assets of these companies were translated at year-end into the Group's reporting currency, which is US dollars.

The largest sterling assets owned by the Group are the intangibles arising on the acquisition of Wellington and the purchase of Wellington syndicate capacity from Lloyd's Names, both of which primarily related to the purchase of sterling assets. As a result, more than 62 per cent of the currency translation gain related to intangible assets.

The split of net assets by currency is analysed in Table 13.

Financial Review continued

In line with the management's continued focus on underwriting hubs, Catlin expects in 2010 to revise the attribution of intangible assets to segments to match those assets to the relevant business flows. Commensurate with the continuing planned growth of the non-London hubs, this reallocation is expected to lead to a change in currency of approximately 85 per cent of those intangibles from sterling to US dollars.

In March 2009 the Group completed a Rights Issue. The Company issued 102,068,050 new Common Shares, par value of $0.01 per Common Share, by way of a Rights Issue at 205 pence per new common share on the basis of 2 new common shares for every 5 existing common shares. Proceeds, after issue costs, amounted to £200 million (US$289 million), of which approximately half was converted to US dollars.

At a special general meeting held on 9 March 2009, a resolution was passed increasing the authorised share capital of the Company from $4 million divided into 400,000,000 Common Shares of par value $0.01 each to $5 million divided into 500,000,000 Common Shares of par value $0.01 each.

In January 2007 Catlin Bermuda issued US$600 million of non-cumulative perpetual preferred shares. Dividends are paid semi-annually at a rate of 7.249 per cent up to 2017 when there is a 100 basis point step up in the interest cost based on LIBOR at that time. These shares represent a capital instrument which is eligible as regulatory capital for Catlin Bermuda and innovative 'Tier 1' capital under the rules of the Financial Services Authority in the UK.

The amount attributable to preferred shareholders is US$590 million. The per share amounts attributable to common shareholders are set out in Table 14.

Table 14: Net tangible assets

US$m	2009	2008
Total stockholders' equity	**3,278**	2,469
Less: attributable to preferred shares	**(590)**	(590)
	2,688	1,879
Less: intangible assets	**(622)**	(564)
Net tangible assets	**2,066**	1,315
Book value per share (US$)[1]	**$7.68**	$6.61
Book value per share (sterling)[1]	**£4.74**	£4.53
Net tangible assets per share (US$)[1]	**$5.90**	$4.63
Net tangible assets per share (sterling)[1]	**£3.64**	£3.17

[1]Book value and tangible book value per share at 31 December 2008 has been adjusted for the bonus factor implied by the Rights Issue

The growth in sterling book value per share illustrates the effect of the movement in the dollar-to-sterling exchange rate during 2009. Sterling book value per share growth is relevant when considering Catlin's market value, which is denominated in sterling. Tangible book value per share in sterling increased by 15 per cent in 2009, whilst total book value grew by 5 per cent.

Capital position

The charts overleaf provide two views of capital – from a policyholder security perspective and from an investor's perspective – and demonstrate Catlin's continuing strength and capital efficiency.

The Group's capital base was strengthened following the Rights Issue and record profits during 2009. The strong, liquid balance sheet provides excellent security for policyholders, as reflected in ratings of 'A' (Excellent) from A.M. Best and 'A' (Strong) from Standard & Poor's.

The Group's capital from a policyholder security perspective can be viewed in Table 15.

Catlin's primary capital focus is to maintain an efficient level of economic capital consistent with the Group's risk appetite and current business plan. The Group believes that the capital position at 31 December 2009 is sufficient to mitigate the risk of having to raise further capital following two 1-in-100-year events, so that the Group can benefit from the improved pricing environment in subsequent years.

The Group's capital from an investor's perspective is analysed in Table 16.

Rebased per-share amounts and ratios

Catlin has rebased its reported per-share amounts following the Rights Issue completed in March 2009 and during 2009 rebased some of its key ratios, as shown in the Table 17.

Table 15: Capital position from policyholder security perspective

US$m	31 December 2009
Paid-up capital (net of intangibles)	**2,066**
Preferred shares	**590**
Subordinated debt	**97**
Lloyd's LOC facilities	**518**
Total	**3,271**
Regulatory capital at risk[1]	**1,849**
Surplus capital to regulatory capital at risk	**1,422**
Surplus capital as % of regulatory capital at risk	**77%**

[1]Total regulatory capital is US$2.2 billion and represents the sum of Funds at Lloyd's and UK, Bermuda and US regulatory capital. Regulatory capital at risk reflects Catlin's assessment of regulatory capital held in respect of third-party business underwritten

Table 16: Capital position from investor perspective

US$m	31 December 2009
Paid-up capital (net of intangibles)	**2,066**
Preferred shares	**590**
Capital available for underwriting	**2,656**
Economic capital[1]	**2,231**
Capital buffer to economic requirements	**425**
Capital buffer as % of economic capital	**19%**

[1]Economic capital represents management's view of the minimum capital required to operate the business, based on the Group's internal model

Table 17: Rebased per share amounts and ratios

	2009	2008	2007	2006[1]	2005
Basic earnings per share (US$)[2]	**1.52**	(0.16)	1.61	1.39	0.11
Dividends per share (US cents)[2]	**40.00**	37.91	43.85	38.52	24.02
Dividends per share (pence)[2]	**25.00**	23.23	21.92	20.09	13.54
Book value per share (US$)[2]	**7.68**	6.61	8.38	7.05	5.22
Book value per share (£)[2]	**4.74**	4.53	4.21	3.60	3.03
Net tangible assets per share (US$)[2]	**5.90**	4.63	5.73	4.46	4.86
Net tangible assets per share (£)[2]	**3.64**	3.17	2.88	2.28	2.83
Expense ratio[3]	**31.5%**	32.0%	34.1%	32.6%[4]	30.9%
Combined ratio[3]	**89.1%**	94.9%	80.6%	82.6%[4]	102.0%
Return on equity[5]	**24.3%**	(1.9%)	22.9%	26.2%[4]	2.0%
Return on net tangible assets[5]	**33.2%**	(2.8%)	36.1%	29.4%[4]	2.2%

[1]Catlin as reported except where noted
[2]Per share amounts previously reported have been adjusted by a factor of 87.34 per cent to reflect the effects of the 2 for 5 Rights Issue in March 2009.
[3]The expense ratio and the combined ratio include policy acquisition costs and most administrative expenses. These ratios now exclude profit-related bonuses, share option scheme costs and certain other Group corporate costs; these costs had previously been included in these ratios.
[4]Catlin and Wellington combined
[5]The methodology for calculating the return on equity and return on net tangible assets has been changed so that returns are calculated by reference to opening balances, adjusted for the effects of capital movements in the year. Previously, returns were based on average balances.

Loss Reserve Development

Highlights:

- Reserves have developed broadly across all accident years in line with assessments made at year-end 2008
- There has been favourable development for the 2003 to 2007 accident years

Catlin adopts a conservative reserving philosophy, reflecting the inherent uncertainties in estimating insurance liabilities.

A liability is established for unpaid losses and loss expenses when insured events occur. The liability is based on the expected ultimate cost of settling the claims. The reserve for losses and loss expenses includes:

- case reserves for known but unpaid claims as at the balance sheet date;
- incurred but not reported ('IBNR') reserves for claims where the insured event has occurred but has not been reported to the Group as at the balance sheet date; and
- loss adjustment expense reserves for the expected handling costs of settling the claims.

The process of establishing reserves is both complex and imprecise requiring the use of informed estimates and judgments. Reserves for losses and loss expenses are established based on amounts reported from insureds or ceding companies and according to generally accepted actuarial principles. Reserves are based on a number of factors including experience derived from historical claim payments and actuarial assumptions. Such assumptions and other factors include, but are not limited to:

- the effects of inflation;
- estimation of underlying exposures;
- changes in the mix of business;
- amendments to wordings and coverage;
- the impact of large losses;
- movements in industry benchmarks;
- the incidence of incurred claims;
- the extent to which all claims have been reported;
- changes in the legal environment;
- damage awards; and
- changes in both internal and external processes which might accelerate or slow down both reporting and settlement of claims.

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.

The Group receives independent external actuarial analysis of its reserving requirements annually.

The loss reserves are not discounted for the time value of money apart from on a minimal amount of individual claims.

Estimate of reinsurance recoveries

The Group's estimate of reinsurance recoveries is based on the relevant reinsurance programme in place for the calendar year in which the related losses have been incurred. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim reserves associated with the reinsured policy. An estimate for potential reinsurance failure and possible disputes is provided to reduce the carrying value of reinsurance assets to their net recoverable amount.

Development of reserves for losses and loss expenses

Catlin believes that presentation of the development of net loss provisions by accident period provides greater transparency than presenting on an underwriting year basis that will include estimates of future losses on unearned exposures. However, due to certain data restrictions, some assumptions and allocations are necessary. These adjustments are consistent with the underlying premium earning profiles.

The loss reserve triangles in Tables 2 and 3 on pages 58 and 59 show how the estimates of ultimate net losses have developed over time. The development is attributable to actual payments made and to the re-estimate of the outstanding claims, including IBNR. The development is shown including and excluding certain large losses as detailed on page 60. Development over time of net paid claims is also shown, including and excluding these large claims.

All historic premium and claim amounts have been restated using exchange rates as at 31 December 2009 for the Group's functional currencies to remove the distorting effect of changing rates of exchange as far as possible.

Wellington acquisition

The business combination resulting from the Wellington acquisition was deemed effective 31 December 2006 for accounting purposes; accordingly the net assets acquired are valued as at that date. In the tables below the Wellington reserves arising from the transaction for events occurring prior to 31 December 2006 are shown from the date of the business combination. Premium and reserves relating to business written by Wellington prior to the business combination but earned during future calendar years are included within those accident years for the Group.

For the 2007 underwriting year the Group in effect purchased the remaining Lloyd's capacity relating to the business previously underwritten by third-party Lloyd's Names participating on Wellington Syndicate 2020. Since the closure of the 2006 underwriting year, by way of reinsurance to close, the Group has been responsible for 100 per cent of the liabilities of Syndicate 2020.

Since 31 December 2006 the Wellington reserves have been set consistent with Catlin's reserving philosophy, and Wellington is included within the scope of work undertaken by the Group's external actuarial advisor.

Table 1: Summary of Catlin Group net reserves at 31 December 2009 (US$m)

Accident Year	Catlin net reserves	Legacy Wellington net reserves	Total net reserves	% of total net reserves
2002 and prior	152	188	340	8%
2003	66	42	108	3%
2004	75	78	153	4%
2005	93	289	382	9%
2006	140	199	339	8%
2007[1]	472	118	590	14%
2008[1]	899	18	917	22%
2009[1]	1,375	0	1,375	32%
Sub-total	3,272	932	4,204	100%
Other net reserves[2]			16	0%
Total net reserves			**4,220**	**100%**

[1]Legacy Catlin net reserves after external quota share
[2]Other net reserves include other outwards reinsurance, unallocated claims handling expenses, potential reinsurance failure and disputes and foreign exchange adjustments

Highlights

In aggregate, across all accident years, reserves have developed broadly in line with the assessments made at the year-end. The reserves from the 2002 and prior accident years represent 8 per cent of the Group's net reserves at 31 December 2009.

A summary of the Group's net reserves is shown in Table 1.

Loss Reserve Development continued

Development tables – Table 2: Estimated ultimate net losses (US$m)

	Wellington accident periods 2006 and prior	2002 and prior	Accident year 2003	2004	2005	2006	2007	2008	2009	Total
Net premiums earned			942	1,182	1,213	1,354	2,758	2,566	2,939	
Net ultimate excluding large losses										
Initial estimate[1]	6,023	1,565	430	555	603	645	1,392	1,556	1,799	
One year later	5,990	1,585	414	491	543	603	1,460	1,563		
Two years later	5,934	1,597	386	468	499	589	1,456			
Three years later	5,903	1,638	385	441	478	564				
Four years later		1,653	375	429	466					
Five years later		1,661	373	434						
Six years later		1,665	382							
Net ultimate loss ratio excluding large losses										
Initial estimate[1]			45.6%	47.0%	49.7%	47.6%	50.5%	60.7%	61.2%	
One year later			44.0%	41.5%	44.8%	44.6%	52.9%	60.9%		
Two years later			41.0%	39.6%	41.2%	43.5%	52.8%			
Three years later			40.9%	37.3%	39.4%	41.6%				
Four years later			39.8%	36.3%	38.4%					
Five years later			39.6%	36.7%						
Six years later			40.6%							
Net ultimate large losses										
Initial estimate[1]		20		116	334			274		
One year later		19		117	386			285		
Two years later		19		118	397					
Three years later		19		117	401					
Four years later		20		121	400					
Five years later		23		122						
Six years later		23								
Net ultimate including large losses										
Initial estimate[1]	6,023	1,585	430	671	937	645	1,392	1,830	1,799	
One year later	5,990	1,604	414	608	929	603	1,460	1,847		
Two years later	5,934	1,616	386	585	896	589	1,456			
Three years later	5,903	1,658	385	557	878	564				
Four years later		1,673	375	551	866					
Five years later		1,684	373	555						
Six years later		1,689	382							
Net ultimate loss ratio including large losses										
Initial estimate[1]			45.6%	56.8%	77.3%	47.6%	50.5%	71.3%	61.2%	
One year later			44.0%	51.4%	76.6%	44.6%	52.9%	71.9%		
Two years later			41.0%	49.5%	73.9%	43.5%	52.8%			
Three years later			40.9%	47.2%	72.4%	41.6%				
Four years later			39.8%	46.6%	71.4%					
Five years later			39.6%	47.0%						
Six years later			40.6%							
Cumulative net paid	5,107	1,537	316	481	773	424	822	849	372	10,681
Estimated net ultimate claims	5,903	1,689	382	555	866	564	1,456	1,847	1,799	15,061
Estimated net claim reserves	796	152	66	74	93	140	634	998	1,427	4,380
External quota share							(44)	(80)	(52)	(176)
Estimated claim reserves after external quota share	796	152	66	74	93	140	590	918	1,375	4,204
Other net reserves[2]										16
Booked reserves										4,220

[1]Initial estimates for 2002 and prior shown as at 31 December 2003; initial estimates for Wellington accident periods 2006 and prior are shown as at the date of business combination

[2]Other net reserves include other outward reinsurance, unallocated claim handling expenses, potential reinsurance failure and disputes and foreign exchange adjustments

Table 3: Net paid losses (US$m)

	Wellington accident periods 2006 and prior	2002 and prior	2003	2004	2005	2006	2007	2008	2009
Net premiums earned			942	1,182	1,213	1,354	2,758	2,566	2,939
Net paid excluding large loss									
Initial estimate[1]	3,842	1,102	97	129	122	159	248	306	372
One year later	4,309	1,230	174	227	230	272	518	675	
Two years later	4,755	1,324	231	287	294	362	822		
Three years later	5,107	1,380	260	319	350	424			
Four years later		1,442	285	343	384				
Five years later		1,479	309	359					
Six years later		1,516	316						
Net paid loss ratio excluding large losses									
Initial estimate[1]			10.3%	10.9%	10.1%	11.7%	9.0%	11.9%	12.7%
One year later			18.4%	19.2%	19.0%	20.1%	18.8%	26.3%	
Two years later			24.5%	24.3%	24.2%	26.7%	29.8%		
Three years later			27.6%	27.0%	28.9%	31.3%			
Four years later			30.2%	29.1%	31.7%				
Five years later			32.8%	30.4%					
Six years later			33.5%						
Net paid large losses									
Initial estimate[1]		8		72	94			101	
One year later		13		113	248			174	
Two years later		15		115	347				
Three years later		18		117	378				
Four years later		19		119	389				
Five years later		21		122					
Six years later		21							
Net paid including large loss									
Initial estimate[1]	3,842	1,110	97	201	216	159	248	406	372
One year later	4,309	1,243	174	340	478	272	518	849	
Two years later	4,755	1,339	231	402	641	362	822		
Three years later	5,107	1,398	260	435	728	424			
Four years later		1,461	285	462	773				
Five years later		1,501	309	481					
Six years later		1,537	316						
Net paid loss ratio including large losses									
Initial estimate[1]			10.3%	17.0%	17.8%	11.7%	9.0%	15.8%	12.7%
One year later			18.4%	28.7%	39.4%	20.1%	18.8%	33.1%	
Two years later			24.5%	34.0%	52.8%	26.7%	29.8%		
Three years later			27.6%	36.8%	60.0%	31.3%			
Four years later			30.2%	39.1%	63.8%				
Five years later			32.8%	40.7%					
Six years later			33.5%						

[1]Initial estimates for 2002 and prior shown as at 31 December 2003; initial estimates for Wellington accident periods 2006 and prior are shown as at the date of business combination

Tables 2 and 3 exclude unallocated claims handling expenses, potential reinsurance failure and disputes, other reinsurance and foreign exchange adjustments, except where explicitly stated.

Loss Reserve Development continued

Table 4: Large losses

Accident year	Event
2002 & prior	World Trade Center/US Terrorism 9/11
2004	Hurricane Charley
2004	Hurricane Frances
2004	Hurricane Ivan
2004	Hurricane Jeanne
2005	Hurricane Katrina
2005	Hurricane Rita
2005	Hurricane Wilma
2008	Hurricane Ike

Large losses

The events listed in Table 4 are included in the large loss sections of the Tables 2 and 3.

The large loss component of Wellington for accident periods prior to the business combination are not included in the large loss estimates shown in the development tables.

Commentary on development tables

Accident year 2009

The loss ratio is similar to 2008 (excluding effect of large losses) at the same development point.

Accident year 2008

There has been a small increase in the Hurricane Ike estimate during the year. Loss development excluding large losses has been broadly stable over the year.

Accident years 2003 to 2007

There has been favourable improvement overall since the previous year-end.

Accident years 2002 and prior

There has been broadly stable development in these accident periods since the previous year-end.

Wellington accident periods 2006 and prior

The reserves in these periods have shown releases during the year.

Limitations

Establishing insurance reserves requires the estimation of future liabilities which depend on numerous variables. As a result, whilst reserves represent a good faith estimate of those liabilities, they are no more than an estimate and are subject to uncertainty. It is possible that actual losses could materially exceed reserves.

Whilst the information in the tables above provides a historical perspective on the changes in the estimates of the claims liabilities established in previous years and the estimated profitability of recent years, users are cautioned against extrapolating future surplus or deficit on the current reserve estimates. The information may not be a reliable guide to future profitability as the nature of the business written might change, reserves may prove to be inadequate, the reinsurance programme may be insufficient and/or reinsurers may fail or be unwilling to pay claims due.

Management considers that the loss reserves and related reinsurance recoveries continue to be held at levels which are conservative relative to the Group's independent actuarial advisor's best estimate based on the information currently available. However, the ultimate liability will vary as a result of inherent uncertainties and may result in significant adjustments to the amounts provided. There is a risk that, due to unforeseen circumstances, the reserves carried are not sufficient to meet ultimate liabilities.

The accident year triangles were constructed using several assumptions and allocation procedures which are consistent with underlying premium earning profiles. Although we believe that these allocation techniques are reasonable, to the extent that the incidence of claims does not follow the underlying assumptions, our allocation of losses to accident year is subject to estimation error.

Investments

Highlights:

- Total return on average investments increased to a record 5.9 per cent (2008: 1.4 per cent loss)
- Total cash and investments increased by 30 per cent to US $7.7 billion
- Catlin's asset portfolio remains extremely liquid and defensively positioned
- The Group recognises that investment return in 2010 will likely be reduced

Investment markets recovered during 2009 following the unprecedented levels of volatility encountered during the previous year. This recovery had a positive impact on Catlin's investment performance, as the Group's total return on average investments increased to 5.9 per cent (2008: 1.4 per cent loss). Total investment income amounted to US$419 million (2008: US$85 million loss).

Catlin benefitted during 2009 from the recovery in value of the Group's diversified asset holdings. Narrowing spreads on fixed income investments also led to the recovery of unrealised losses sustained during the previous year. The Group recognises that its investment performance during 2009 was the result of unusual market conditions, and as the Group currently maintains a defensive investment strategy it is recognised that performance in future years will be more challenging.

Table 1: Contribution to total investment return 2008-2009

	2009 US$m	2009 %	2008 US$m	2008 %
Investment income	**187**	**2.6%**	238	3.9%
Net gains/(losses) on fixed income investments	**91**	**1.3%**	(111)	(1.8)%
Net gains/(losses) on funds	**141**	**2.0%**	(212)	(3.5)%
Total investment return	**419**	**5.9%**	**(85)**	**(1.4)%**

Table 2: Investment performance by major asset category 2008-2009

2009	Average allocation during period US$m	Average allocation during period %	Return US$m	Return %
Fixed income	3,355	47.1%	245	7.3%
Cash & short-term investments	3,000	42.1%	33	1.1%
Diversified assets	765	10.8%	141	18.5%
Total	**7,120**	**100%**	**419**	**5.9%**

2008	Average allocation during period US$m	Average allocation during period %	Return US$m	Return %
Fixed income	2,886	47.0%	42	1.5%
Cash & short-term investments	2,329	37.9%	85	3.7%
Diversified assets	923	15.1%	(212)	(23.0)%
Total	**6,138**	**100%**	**(85)**	**(1.4)%**

Investment performance

The Group's total investment return of 5.9 per cent during 2009 is broken down by major asset category in Table 1.

Catlin's investment performance during 2009 and 2008 is further analysed in Table 2.

Contributing to the fixed income return was spread tightening in asset- and mortgage-backed securities and, to a lesser extent, investment-grade corporate bonds. Spread tightening in these sectors also contributed to the performance of the diversified assets.

Investments continued

Table 3: Asset allocation at 31 December

	2009	2008
Fixed income investments		
Asset-backed securities	**3%**	4%
Agency mortgage-backed securities	**5%**	5%
Non-agency mortgage-backed securities	**2%**	3%
Commercial mortgage-backed securities	**3%**	3%
Corporate bonds	**11%**	9%
FDIC-backed corporate bonds	**5%**	3%
US government and agency securities	**10%**	12%
Non-US government and agency securities	**11%**	8%
	50%	47%
Cash and short-term investments	**43%**	40%
Diversified assets (equity funds and hedge funds/funds of funds)	**7%**	13%
	100%	100%

Investment portfolio

Catlin's total cash and investments increased by 30 per cent during 2009 to US $7.7 billion (2008: US $5.9 billion). A portion of this increase resulted from positive investment performance and cash flow from the Group's operations. However, the increase also includes proceeds of US$289 million from the Rights Issue completed in March and the transfer of approximately US$460 million resulting from the third-party Names' share of the reinsurance to close of Wellington Syndicate 2020 into the Catlin Syndicate. That transaction took place in the first quarter of 2009 under Lloyd's three-year accounting rules.

The Group made significant changes to its investment strategy and the composition of its asset portfolio during 2009. Following the acquisition of Wellington Underwriting plc in 2006, the Group expanded the allocation devoted to diversified assets, including equity and hedge funds. However, during the past year Catlin concluded that such a strategy was no longer appropriate in the light of the economic climate.

During 2009 Catlin divested all of its equity holdings. It redeemed US$340 million of its hedge fund holdings, and at 31 December 2009 had issued redemption notices for hedge fund holdings whose proceeds are expected to amount to approximately US$170 million. In addition, Catlin disposed of some sub-investment grade corporate bond holdings during 2009 and increased its holdings of investment-grade corporate bonds and bonds which are guaranteed by the US Federal Deposit Insurance Corporation. The Group maintained – in monetary terms – its holding of short-dated, high-grade asset-backed securities.

Catlin's asset portfolio at 31 December 2009 was extremely liquid and defensively positioned (see Table 3). Cash and short-term investments were equal to 43 per cent of total investment assets at 31 December 2009 (2008: 40 per cent). Liquid assets – which are defined by the Group as cash, government securities and fixed income securities with less than six months to maturity – amounted to 62 per cent of investment assets (2008: 60 per cent).

The Group's asset allocation at 31 December 2009 by asset category is shown in Table 3.

The high level of liquidity at year-end 2009 gives the Group the latitude during 2010 to invest in instruments, primarily in the fixed-income sector, that show the greatest potential opportunities, and 95 per cent of the government/agency securities relate to G7 countries. The Group will continue to retain holdings in certain hedge funds that are aligned with this opportunistic strategy.

Asset quality

Catlin's fixed income portfolio at 31 December 2009 consisted of high-quality assets, with 96 per cent of the portfolio held in government/agency securities or instruments rated 'A' or higher. The quality of the Group's fixed income portfolio is analysed in Table 4.

Table 4: Fixed income investments by rating at 31 December 2009

2009	Government/ agency	AAA	AA	A	BBB or lower	Assets (US$m)
US government & agencies	19%	–	–	–	–	745
Non-US government & agencies	22%	–	–	–	–	836
Agency mortgage-backed securities	11%	–	–	–	–	410
FDIC-backed corporate bonds	10%	–	–	–	–	375
Asset-backed securities	–	6%	*	*	*	260
Non-agency mortgage-backed securities	–	1%	*	*	3%	169
Commercial mortgage-backed securities	–	4%	1%	*	*	204
Corporate bonds	–	1%	6%	15%	1%	868
Total	**62%**	**12%**	**7%**	**15%**	**4%**	**3,867**

*Less than 0.5 per cent

Duration

The duration of the fixed income portfolio at 31 December 2009 was 2.3 years (2008: 2.7 years). The duration of the portfolio was relatively short due to the decision to maintain high levels of liquidity and the expectation that yield curves will continue to steepen.

Outlook

Catlin anticipates that investment return in 2010 will be significantly reduced from the favourable performance of the past year. The Group expects that returns on cash and government bonds – which account for more than half of the portfolio – will remain low during 2010. Fixed income spreads during 2009 generally narrowed to the levels prevailing prior to the economic crisis, so fixed income gains of the order reported during the past year cannot be repeated.

Despite the recovery in global investment markets during 2009, Catlin remains cautious regarding economic fundamentals during 2010. However, the high level of liquidity in the Group's portfolio does position Catlin to take advantage of any further dislocations that may occur.

Distribution

Highlights:

- Catlin's distinctive international distribution model allows it to diversify its underwriting portfolio
- Nearly all of Catlin's business is produced by insurance brokers
- The five largest brokers account for nearly 60 per cent of Catlin's premium volume
- Writing business through carefully selected coverholders also allows Catlin to diversify its portfolio

Catlin's portfolio of insurance and reinsurance business is produced through a distinctive distribution model that is a cornerstone of Catlin's operating strategy. This distribution model allows Catlin to write a geographic- and product-diverse portfolio of insurance and reinsurance business.

Catlin in 1999 started to build an international distribution network, rather than relying solely on London wholesale business. Catlin established offices in Singapore and London, followed by the acquisition later in 1999 of a US underwriting agency with offices in Houston and New Orleans. From this modest beginning, Catlin now operates a network of 47 offices worldwide. Besides its original UK underwriting operation at Lloyd's of London, Catlin now operates underwriting hubs in Bermuda, the United States, the Asia-Pacific Region, Europe and Canada.

This model allows Catlin to underwrite specialty insurance and reinsurance business that would normally not be placed in the London wholesale market, which adds diversity to the portfolio both by geographic region and by class of business. In addition, this structure allows Catlin to form closer relationships with assureds and their brokers worldwide. The Group believes that this well-developed global structure constitutes a competitive advantage in today's marketplace.

The vast majority of the business that Catlin underwrites is produced by hundreds of retail and wholesale brokers worldwide, including specialty and regional brokerages.

Catlin aims to establish close and long-lasting relationships with its brokers through its reputation for underwriting excellence and through superior levels of service to brokers and clients. During 2008, Catlin ranked first among London market underwriters in terms of broker satisfaction in a survey of brokers conducted by Gracechurch Consulting. A similar survey is expected to be conducted in 2010. In addition, Catlin's London market claims team has been ranked first among London market underwriters on several criteria in 2008 and 2009 surveys conducted by Gracechurch (see page 65).

A breakdown of Catlin's ten largest brokers based on percentage of the Group's 2009 gross premiums placed appears in Chart 1. These ten brokers accounted for approximately two-thirds of the gross premiums written by the Group; the five largest brokers accounted for nearly 60 per cent.

Binding authorities and third-party coverholders

Catlin delegates underwriting authority for specific classes of business to third-party 'coverholders' under standard market contractual agreements. A coverholder is typically a wholesale insurance agent dealing in a variety of classes of local business, but niche brokers are also occasionally used as coverholders.

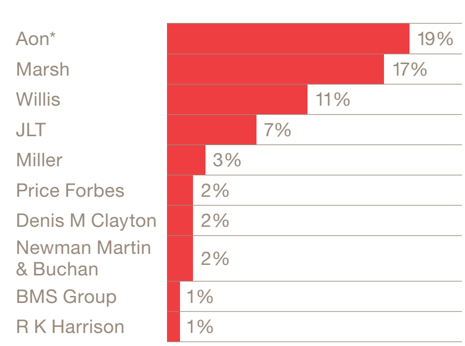
Writing business through carefully selected coverholders provides Catlin with access to quality business, often smaller to medium size risks, that would ordinarily be uneconomical to underwrite. This increases the diversity of Catlin's risk portfolio – both by business class and geographic location – and provides a further source of operational leverage.

Catlin UK-based operations – the Catlin Syndicate and Catlin UK – are considered leaders in the Lloyd's and UK binding authority business, particularly in US-based surplus lines property binding authorities, although Catlin's other underwriting platforms also participate. The Catlin Syndicate and Catlin UK had 931 binding authority agreements in place during 2009 (2008: 1,067).

Catlin US also has a substantial book of binding authority business which is written from its office in Scottsdale, Arizona. In addition, Catlin US during 2009 entered into an agreement whereby W. Brown & Associates Insurance Services, a California-based underwriting agent, began writing a substantial portfolio of General Aviation insurance for US clients nationwide on behalf of Catlin US.

Binding authorities require careful management. Catlin places a strong emphasis on the selection, management and monitoring of its coverholders and has established dedicated teams in both London and the United States to oversee and review current and prospective coverholders. The teams' main goal is to ensure that all coverholders underwriting business on behalf of Catlin comply with the Group's rigorous processes and controls. In addition, Catlin makes sure that its own interests are aligned with those of its coverholders, so that all parties are focused on maximising underwriting profitability.

Chart 1: Percentage of gross premiums written produced by largest brokers in 2009



*Aon includes operations of Benfield Group Limited, which Aon acquired in December 2008.

Claims Management

Highlights:

- Catlin believes that integration of claims, underwriting and actuarial staffs benefits both the Group and clients
- Claims professionals are based in each underwriting hub
- Catlin's London claims staff continues to be recognised for high performance

Catlin continues to be an acknowledged leader in claims management.

Whilst many other insurance carriers operate their claims functions on a stand-alone basis, Catlin believes one of its key differentiators is the integration of its claims management staff with underwriting and actuarial functions. Working in parallel leads to shared information and insight, which benefits both the Group and assureds.

Recognising that effective claims management protects the Group's capital base, enhances the Catlin brand, and attracts and retains profitable business; Catlin focuses its claims services around the following principles:

- **Advisor management** – procuring the best outcomes through the management of long-term relationships with outside advisors, including claims adjusters and attorneys;
- **Case management** – adopting a proportionate approach to those issues which matter most, peer review and adherence to management philosophies and procedures to achieve outstanding outcomes and reserve accuracy;
- **Service** – adopting behaviours and attitudes to attract and retain business through service excellence;
- **Process discipline** – designing proportionate processes to enable both flexibility and control of risk; and
- **Continuous development** – continually improving staff skills and knowledge through personal, technical and legal training.

Catlin's claims capabilities are organised with claims teams in each underwriting hub worldwide (see Chart 1). These teams report to the Group Claims Director, and the claims professionals within each underwriting hub adhere to an agreed set of Catlin core practices and philosophies. In most instances the Group outsources the handling of high-volume, low-value claims, subject to rigid service standards. Large, volatile claims are handled by Catlin's own staff.

Catlin's claims team comprised 113 employees at 31 December 2009 (2008: 98).

Catlin's London claims team, which accounts for approximately 60 per cent of the Group's claims personnel, continued to be win accolades for its high levels of service. The London claims team continued in 2009 to be ranked as providing the best claims service in the London market by brokers surveyed by Gracechurch Consulting (see Chart 2). The team also was named 'Claims Team of the Year' in the 2009 London Market Awards sponsored by the daily insurance newspaper *Insurance Day.*

Chart 1: Claims employees by location at 31 December 2009

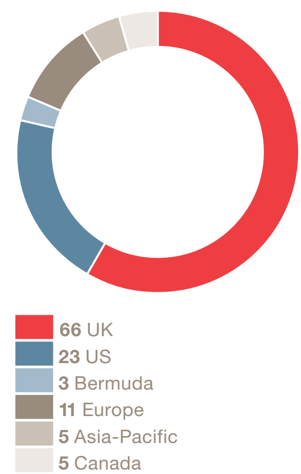
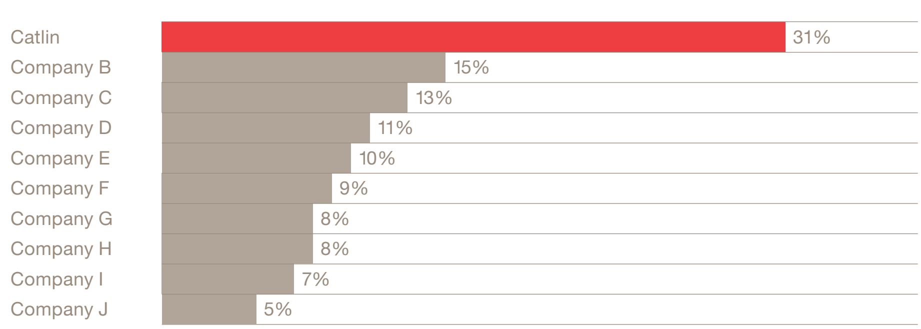


Chart 2: London insurers recommended for claims service



Question: Which two insurers would you currently highly recommend to clients based on the quality of claims services to brokers?

Source: Gracechurch Consulting

Risk and Capital Management

Highlights:

– A robust risk and control framework is in place to address all material risks faced by the Group
– In 2009 Catlin established an Enterprise Risk Management initiative to integrate the existing risk programmes into a holistic, embedded Group-wide risk and capital management framework
– The Group uses sophisticated modelling tools to actively manage its most significant potential catastrophe threats from natural or man-made events
– Bespoke portfolio management tools are employed to enhance the understanding of underwriting and investment risk profiles

Catlin has a robust risk and control framework which is designed to address all of Catlin's material risks.

Catlin is in the business of managing insurance risk transferred to the Group by policyholders. The Group holds significant assets on behalf of both policyholders and shareholders which present investment-related risks. These are the risks we take commercially. These risks are compounded by the risks from external forces outside the Group's direct control, such as risks posed by economic uncertainty. Furthermore, there is risk associated with the delivery and execution of the Group's strategy.

Catlin's strategy for managing the insurance and investment risks includes:

- Analysing and assessing insurance risks with quality underwriting, actuarial and claim expertise;
- Analysing and selecting high-quality investment options with experienced asset managers;
- Diversifying insurance and investment risks through active portfolio management and risk modelling;
- Allocating capital to business segments based on risk/return considerations;
- Mitigating risk through cost-effective reinsurance programmes;
- Retaining risk within an approved risk appetite with appropriate levels of capital; and
- Continuously monitoring for emerging changes affecting risk.

The Group's strategy for managing other business and operational risks includes:

- Identifying and analysing risk through a disciplined risk assessment process;
- Mitigating or avoiding risks that do not fit our business objectives; and
- Retaining risk within an agreed risk appetite with appropriate levels of capital.

Risk governance, roles and responsibilities

An illustration of Catlin's risk governance framework, including high-level roles and responsibilities, is contained in Chart 1.

The Board of Directors is responsible for the overall internal control framework for the Group, including approving business strategy and the Group's annual business plan as well as determining risk appetite and setting risk policies.

Chart 1: Risk governance, roles and responsibilities

The Group Executive Committee ('GEC') is charged by the Board of Directors with directing the execution of the risk management programme, including Enterprise Risk Management.

Responsibility for risk management is spread throughout the organisation. The chief executives of the Group's underwriting hubs are responsible for developing and executing a strategy and business plan, subject to the approval of the GEC and the Board of Directors. The hub chief executives are responsible for identifying and managing the risks to the hub's objectives. Group function heads are similarly responsible for establishing Group-wide controls within their respective areas.

The risk management programme is supervised by the Chief Risk Officer who provides guidance and support for risk management practices across the Group, including the underwriting hubs and Group departments.

The Group's Risk and Capital Committee, whose membership includes the Chief Risk Officer and the Head of Enterprise Risk Management (see below), reviews the risk-related matters facing the Group and advises the GEC on risk and capital management.

Enterprise Risk Management initiative

During the second half of 2009, Catlin launched an Enterprise Risk Management ('ERM') initiative, resourced by a dedicated team drawn from the Group's existing Risk, Actuarial and Finance staffs. The objective of Catlin's ERM initiative is to integrate the existing risk programmes into a more holistic, embedded Group-wide risk and capital management framework. The strengthened framework will lead to more informed strategic and operational decisions that optimise the risk/reward relationship and enhance capital efficiency.

The Head of Enterprise Risk Management reports directly to the Chief Executive, who has taken personal ownership of the initiative.

Catlin's ERM initiative is based upon a transparent communication of risk management and risk appetite utilising an economic capital approach. The ERM initiative is intended to deliver a full range of benefits that ensure Catlin retains focus on the risk/reward relationship. These include:

- An improved understanding of all risks and related capital requirements;
- Better decision making and enhanced profits driven by the ability to assess and allocate the overall capital requirement using sophisticated capital modelling techniques;
- The selection of the most appropriate strategy from the range of available business decisions with direct reference to the Group's risk appetite, optimal underwriting portfolio, capital requirements, investment strategy; and resultant expected profit and return on equity;
- Stronger internal and external risk management communication;
- The maintenance of a consistent risk management approach throughout the Group as the business continues to grow and evolve; and
- Continuing to meet existing and evolving regulatory requirements, including Solvency II.

This programme of works is supported by a comprehensive internal and external communications plan. The aim is to ensure that a strong culture based on risk control and risk management continues to be embedded throughout the Group.

Aggregate management

Catlin writes several classes of catastrophe-exposed business. The Group uses sophisticated modelling tools to manage actively its most significant potential catastrophe threats from natural or man-made events.

Accumulation of risk is monitored and controlled against risk appetite limits in compliance with policy and procedures approved by the Group Board of Directors. A selection of modelled outcomes for the Group's most significant catastrophe threat scenarios is detailed below. The modelled outcomes represent the Group's modelled net loss after allowing for all reinsurances.

Modelled gross and net losses

Tables 2 and 3 overleaf show both the Data Model output and the Adjusted Data Model output. The Data Model output reflects the Group's interpretation of how external models and methods should be applied and are used internally for market consistent comparisons and for regulatory returns. However, uncertainties exist in the modelling based on the Data Model output. Due to these uncertainties and the range of potential outcomes, Catlin adds a further prudential margin to the modelled output to reflect the degree of uncertainty in any peril or scenario. This Adjusted Data Model output is used to monitor against the Group's risk appetite, as guidelines in pricing inwards business, to influence outwards reinsurance purchasing strategy and is a key consideration in the assessment of required capital.

Charts 4 and 5 show in a graphical format the modelled net loss as a percentage of capital available for underwriting for the key catastrophe threat scenarios, based on both the Data Model output and the Adjusted Data Model output.

Limitations

The modelled outcomes in Tables 2 and 3 are mean losses from a range of potential outcomes. Significant variance around the mean is possible.

Catlin understands that modelling is an inexact science and undertakes mitigating actions against this model uncertainty. Modelling is used to inform and complement the views of both underwriting and actuarial teams.

Risk and Capital Management continued

Table 2: Examples of catastrophe threat scenarios/Data Model output

Outcomes derived as at 1 October 2009

On a single loss basis (i.e. net losses for individual threat scenarios are not additive)

US$m	Florida (Miami) windstorm	California earthquake	Gulf of Mexico windstorm	European windstorm	Japanese earthquake
Estimated industry loss	125,000	78,000	112,000	31,000	51,000
Catlin Group					
Gross loss	836	954	1,131	488	455
Reinsurance effect[1]	(535)	(487)	(621)	(118)	(110)
Modelled net loss	**301**	**467**	**510**	**370**	**345**
Modelled net loss as a percentage of capital available for underwriting[2]	12.7%	19.7%	21.5%	15.6%	14.5%

Table 3: Examples of catastrophe threat scenarios/Adjusted Data Model output

Outcomes derived as at 1 October 2009

On a single loss basis (i.e. net losses for individual threat scenarios are not additive)

US$m	Florida (Miami) windstorm	California earthquake	Gulf of Mexico windstorm	European windstorm	Japanese earthquake
Estimated industry loss	125,000	78,000	112,000	31,000	51,000
Catlin Group					
Gross loss	1,014	1,030	1,363	544	487
Reinsurance effect[1]	(596)	(505)	(706)	(124)	(112)
Modelled net loss	**418**	**525**	**657**	**420**	**375**
Modelled net loss as a percentage of capital available for underwriting[2]	17.6%	22.1%	27.7%	17.7%	15.8%

[1]Reinsurance effect includes the impact of both inwards and outwards reinstatements, including any outwards reinsurance accounted for as a derivative

[2]Capital available for underwriting amounted to US$2.4 billion at 30 June 2009; defined as total stockholders' equity (including preferred shares), less intangible assets net of associated deferred tax

Chart 4: Catastrophe threat scenarios/ Data Model output

Modelled net loss as % of capital available for underwriting[1]

[1]Capital available for underwriting amounted to US$2.4 billion at 30 June 2009; defined as total stockholders' equity (including preferred shares), less intangible assets net of associated deferred tax

Chart 5: Catastrophe threat scenarios/ Adjusted Data Model output

Modelled net loss as % of capital available for underwriting[1]

[1]Capital available for underwriting amounted to US$2.4 billion at 30 June 2009; defined as total stockholders' equity (including preferred shares), less intangible assets net of associated deferred tax

Portfolio management

Catlin uses bespoke portfolio management tools to enhance its understanding of the risk profile of its underwriting and investment portfolio.

To better evaluate its risk profile, Catlin has developed sophisticated models to construct portfolios of insurance and reinsurance business that explore the relationship between risk and return. In this work, extensive alternative scenarios are considered, each with a different mix of business classes.

This modelling enables the consideration of mixes of business that might produce higher levels of expected profitability with less risk. This output is then analysed in the light of practical market and resource constraints to develop tactical shifts in the Group's mix of business to utilise capital more efficiently.

Portfolio management is designed to help move Catlin towards an efficient frontier where expected return is maximised for a given level of risk. The analysis considers a range of risk metrics over different return periods to ensure that the effects of individual strategies are taken into account.

Catlin's portfolio management analysis is used to support tactical business planning decisions. This modelling considers dynamic near-term market conditions while maintaining awareness of longer-term strategic aims.

Catlin's portfolio management builds on the existing framework of:

- Underwriting skill and judgement;
- Other underwriting tools and management (e.g. pricing models and Catlin's economic capital model);
- Granular-level portfolio management and individual underwriting pricing for risk; and
- Insight into how markets evolve.

Regulatory and rating agency capital requirements

Catlin is committed to full compliance with local regulatory and capital requirements in all relevant jurisdictions where we operate.

The Group is participating in an Internal Model Approval Process pilot in conjunction with the UK Financial Services Authority ('FSA') to explore the requirements under the proposed Solvency II regulatory framework. Catlin is also working with the Association of Bermuda Insurers and Reinsurers as the Bermuda Monetary Authority ('BMA') progresses to an enhanced risk-based capital approach. Catlin is domiciled in Bermuda and in late 2009 gave a presentation on the Group-wide risk programme to a Supervisors' College convened by the BMA.

Catlin's major underwriting units have been assigned financial strength ratings of 'A' (Excellent) by A.M. Best and 'A' (Strong) by Standard & Poor's. These superior ratings reflect these agencies' confidence in the Group's risk management programme and level of capital.

Standard & Poor's reviewed the Group's risk management programme in 2009. Standard & Poor's rated Catlin's Enterprise Risk Management programme as 'Strong', ranking Catlin amongst the top quartile of insurers whose ERM programmes have been reviewed.

The Catlin Syndicate and Catlin UK (Catlin Insurance Company (UK) Ltd.) will be subject to Solvency II from October 2012. Work is in progress to meet these requirements. As part of this work, Catlin is actively participating in market working groups whose goal is to ensure compliance with the new regulatory regime when it is launched.

Key risks

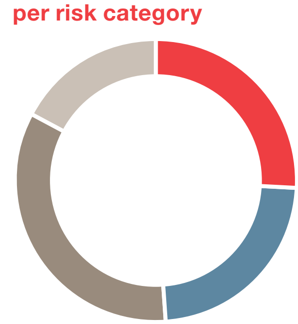
Key risks are considered both within the control framework and within the assessment of capital requirements. Catlin conducts in-depth stochastic modelling across all risk categories. This modelling aids in the development of capital requirements for strategic and annual business planning. The analysis is also shared with regulators for the development of risk-based statutory capital requirements.

Catlin analyses its key risks in the following categories:

- **Insurance risk**
  - Underwriting risk for new business in a given planning period
  - Underwriting risk for business already written but not yet earned
  - Reserving risk
- **Other risk categories**
  - Financial market risk including liquidity risk, currency risk and credit risk
  - Operational risk

The approximate economic capital required by risk category is shown in Chart 6.

Chart 6: Economic capital required per risk category



26% Reserving
23% Other risk categories
34% Underwriting new business
17% Unearned

Insurance risk represents nearly 80 per cent of the Catlin Group's capital requirements.

'Other risk categories' include:
- Investment market risk
- Liquidity risk
- Currency risk
- Credit risk
- Operational risk

Risk and Capital Management continued

Management of underwriting risk

Underwriting risk includes the risks of inappropriate underwriting, inadequate pricing and ineffective management of underwriting delegated to third parties. The competitive pressures on pricing and underwriting actions for some classes of business can be intense. To manage this risk, the Group pays particular attention to the underwriting control framework.

The Group Underwriting Board and the underwriting committee of each underwriting hub are responsible for overseeing the Group's underwriting operations. The underwriting hubs and the Group Executive Committee ('GEC') develop an annual underwriting plan for the consideration of and approval by the Group Board of Directors and the boards of the respective legal entities. The Group Underwriting Board and the GEC monitor and report on the performance against that plan and pricing adequacy on a quarterly basis by hub and by class of business.

Underwriting is conducted in accordance with a number of technical analytic protocols set by the Group Underwriting Board and is supported by pricing models. This includes defined underwriting authorities, guidelines by class of business, rate monitoring, underwriting peer reviews and protocols for delegation to third parties.

Catlin's diversified underwriting portfolio includes a material segment that is exposed to loss from catastrophic events that might impact numerous customers. The inherent risk of a large aggregation of such losses poses one of the most substantial exposures to the Group. Catlin management has put in place a robust control structure to mitigate the risk. The exposure is further protected by a reinsurance programme that responds to an array of possible catastrophic events. The Company has made use of catastrophe bonds to transfer some of the risk.

The Group Head of Claims directs claims operations across the Group. Claims policies and procedures include defined authority levels, protocols for management oversight, an automated system to support and report on all major claims activity and a formal review process for major claims. Internal and, if appropriate, third-party reviews of claims operations are conducted to ensure that the control framework is effective.

Management of reserving risk

Reserves for unpaid losses represent the largest single component of the Group's liabilities. Loss reserve estimates are inherently uncertain. Actual losses that differ from the provisions, or revisions in the estimates, can have a material impact on future earnings and the Group's balance sheet.

Catlin has a large, experienced team of actuaries and other actuarial staff. They work closely with the underwriting and claims staff within each of the operating hubs to ensure understanding of the Group's exposures and loss experience. Analysis of the reserve requirements are initially developed by actuaries embedded within the operating hubs with close knowledge of local underwriting activities. Final reserves are developed by the Group actuarial team and reviewed for final selection with the Group Reserving Committee.

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

Management of financial market risk

Key financial market risks to the Group relate to inappropriate strategy, misalignment with Group risk appetite and achievement of appropriate diversification. These risks might crystallise as financial loss or insufficient risk-adjusted returns.

All Group and subsidiary assets are managed by the Group Chief Investment Officer, under the direction of the Group Executive Committee and the Investment Committee of the Board of Directors. The Board, through the Investment Committee, reviews and approves on a regular basis the investment strategy proposed by the Group Chief Investment Officer.

Regular modelling is performed to test the structure, performance and liquidity of the investment portfolio in scenarios that include extreme insurance events coupled with investment losses.

Before a decision is made to contract with an investment manager or invest in a fund, comprehensive due diligence and analysis is carried out by an in-house team, assisted by external professionals where appropriate.

The Group on a monthly basis monitors the performance of each investment manager. The Group performs on-site visits of all fund managers. Each fixed income manager is given written investment guidelines against which its activities are monitored. The guidelines are reviewed regularly to ensure their appropriateness, with revisions made as required.

The Group continually monitors its cash and investments to ensure that the Group meets its liquidity requirements. The Group sets minimum liquidity requirements; liquidity levels at 31 December 2009 were significantly higher than the minimum required. The Group Treasurer, together with local financial officers, is responsible for ensuring that sufficient liquid investments are available as required by the Group and its operating platforms. The Group Treasurer is also responsible for ensuring that cash is not overly concentrated with any one institution.

The Group conducts business in a number of different currencies, predominantly US dollars, sterling and euros. Trading risk arises from potential currency mismatch between cashflows and expenses. There is also the risk of gains or losses arising from transactions in currencies other than the entity reporting currency and upon consolidation. The Group takes steps to manage, but not eliminate, those risks. To reduce trading risk, the Group Treasurer and local financial officers consider the Group's currency requirements and the risks arising from foreign exchange fluctuations. Each quarter, the actual cash and invested assets are compared with the projected ultimate loss liabilities net of premiums due and reinsurance recoverables by currency. Any shortfall by currency is addressed.

The Group may hedge its overall transactional and translational foreign exchange exposures, but does seek to minimise their impact to the extent feasible by aligning its corporate and capital structure with its operating and functional currencies.

The Group is exposed to credit risk primarily from unpaid reinsurance recoveries and from fixed income instruments in the investment portfolio. The risk of recovering reinsurance is managed by the Group Chief Operating Officer, who along with the Chief Financial Officer is a member of the Group's Reinsurance Security Committee. This committee establishes security standards applicable to all reinsurance purchases and monitors the financial status of all reinsurance debtors. This committee also reviews and approves all non-traditional risk transfers.

Credit risk arising from fixed income instruments is managed by the Group Chief Investment Officer. The professional fund managers are given guidelines regarding minimum quality of investment instruments to be purchased.

Reinsurers and fixed income instruments are monitored for the occurrence of a downgrade or other changes that might cause them to fall below Catlin's security standards. If this occurs, management takes appropriate action to mitigate any loss to the Group.

Management of operational risk

IT system risk is a major element in Catlin's operational risk. The Group is taking steps to upgrade its financial reporting processes to meet the needs of a larger, more geographically diverse organisation. The Group Chief Operating Officer, together with the Group Executive Committee, is responsible for all IT operations and also directs an Operations team that supports process improvement and controls throughout the Group.

Quality management information and reliable data are key to an effective control framework. Data quality is regularly reviewed by a Data Quality team. A management information working group is in place to ensure continual improvements and enhance our current capabilities as well as maintain consistency across the Group as it evolves and grows.

The Group is exposed to operational risk through its relationships with key counterparties. The Group Treasurer is responsible for monitoring and managing banking relationships, including the potential for over-concentration. The Group Chief Investment Officer is responsible for managing any issues relating to fund managers and investment advisors. Risks arising from broker relationships and other local counterparties are managed at the operating hub level.

The Chief Executive Officer of each underwriting hub and Group heads of functions, in conjunction with the Group Executive Committee, are responsible for managing operational risk. Each underwriting hub Chief Executive Officer is required to establish and adhere to appropriate operational policies and procedures.

Assurance

The Group Executive Committee and the Board of Directors actively seek assurance of the effectiveness of the risk and control framework. The Group Head of Internal Audit directs an internal audit programme across all Group operations and subsidiaries. The programme is designed to provide reasonable assurance that the Group's controls and procedures are able to contain risks within acceptable limits.

From time to time, the Group obtains assurance from independent third-party specialists on selected key operations. For example, an independent claim quality review is conducted at least annually. Actuarial reserving is reviewed annually by an independent actuarial firm. In compliance with standards set by the Institute of Internal Auditors, the effectiveness of the internal audit function is periodically assessed by an independent reviewer.

Employees and Culture

Highlights:

- Attracting high-calibre employees is a core component of Catlin's operating strategy
- Catlin's culture is based on a set of core values: transparency, accountability, teamwork, integrity and dignity
- Employee turnover, a key performance indicator, reduced to 10 per cent during 2009
- The Group has initiated several new learning and development programmes to increase performance potential

An integral part of Catlin's strategy is to be the 'employer of choice' in the specialty insurance and reinsurance sector. To meet this objective, Catlin must attract, develop and retain employees of the highest calibre, whose own ambitions parallel those of the Group, clients and shareholders.

The Catlin Culture

Catlin believes that its distinctive corporate culture is an important tool in attracting, retaining and developing high-quality employees. The culture is designed to empower employees to act to the maximum of their abilities and to reinforce the partnerships that exist among Catlin, employees, clients and brokers.

The core values on which the Catlin Culture is based are transparency, accountability, teamwork, integrity and dignity:

- **Transparency.** The Group promotes open communication, both internally and when dealing with clients and brokers. The free and open exchange of information and ideas is encouraged. Wherever possible, offices are designed with open plan layouts to promote communication, support teamwork and discourage hierarchies. Management encourages feedback and suggestions from employees and fully considers employee input when making decisions.
- **Accountability.** Catlin requires employees to take responsibility for their actions and decisions. Emphasising accountability encourages employees to think and act as owners.
- **Teamwork.** Catlin employees are expected to act in the best interests of the Group as a whole, not their own office or department. Parochial concerns take second place to the needs of the client and the Group. This mentality reinforces the employee co-operation that is essential to Catlin's success.
- **Integrity.** Catlin employees are expected to conduct themselves in a manner reflecting the highest ethical standards. Employees are judged not only on the results achieved, but by the manner in which they are achieved. Underlying this value is the Catlin Code of Ethical Conduct, by which all employees must abide (see page 82).
- **Dignity.** Catlin is committed to treating all employees fairly and with respect, and ensuring that its employees treat clients, brokers and other employees with dignity and respect.

Employee communications

Catlin has implemented a sophisticated employee communication strategy worldwide to reinforce the Group's core values and to help ensure that employees' own ambitions match those of the Group.

The Group uses a variety of methods to provide information to employees, ranging from daily meetings within departments to regular 'Town Hall' meetings, conducted by the Chief Executive in various Catlin offices. The key messages from the Town Hall meetings are communicated to employees globally via the Group's employee intranet, 'The Catwalk'. The Catwalk – which contains comprehensive information about the Group, its departments, policies and procedures – was further expanded during 2009 to allow the Group to communicate more clearly with employees in specific regions of the world.

At year-end, all Catlin employees worldwide received two DVDs. One recounted the highlights of the Catlin Arctic Survey as well as the Group's commitment to research pertaining to environmental change; the other contained messages from the Chief Executive and other senior managers about the Group's history, culture and operating strategy.

Several employee communications initiatives are planned during 2010 relating to the 25th anniversary of the Group's establishment.

Employee survey

Catlin conducted its first survey of worldwide employee attitudes during 2009. The voluntary survey, which was conducted with the assistance of the Hay Group, revealed a high level of engagement on the part of Catlin employees, reflected in part by what was considered an excellent response rate of 78 per cent.

Among the survey's findings:

- 81 per cent of responding employees would recommend Catlin to family and friends as a place to work;
- 86 per cent rate Catlin's prospects over the next two to three years very positively;
- 85 per cent believe that good co-operation and teamwork exists within their department or function; and
- 66 per cent highly rate their opportunities for learning and development at Catlin.

In each of these areas – and in two-thirds of all issues covered by the survey – Catlin's performance exceeded the performance of companies included in the Hay Group's High Performance Index. This index is composed of approximately 40 companies regarded as having achieved outstanding financial performance in their industries.

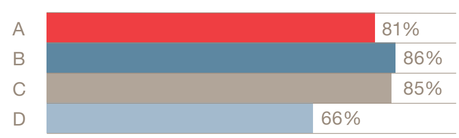
The survey highlighted areas of potential improvement, including employee efficiency and the need for enhanced feedback regarding performance. Catlin management is focusing on these areas and is implementing programmes to address these issues during 2010. Whilst conducted anonymously, the results of the survey were broken down by location and function to allow management to analyse the results fully and make changes in specific areas of the business.

Employees

At 31 December 2009, the Group employed 1,380 people, an increase of 17 per cent during the year (2008: 1,180). Whilst Catlin employees work from nearly 50 offices in 20 countries worldwide, 53 per cent worked in London and other UK offices at 31 December 2009 (2008: 54 per cent).

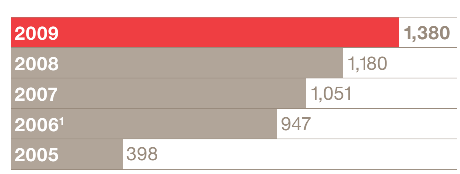
The greatest increases in employees were in the European, Asia-Pacific, US and Canadian underwriting hubs, reflecting the Group's strategy to expand these operations (see Charts 3 and 4).

Chart 1: Key findings from 2010 Catlin employee survey



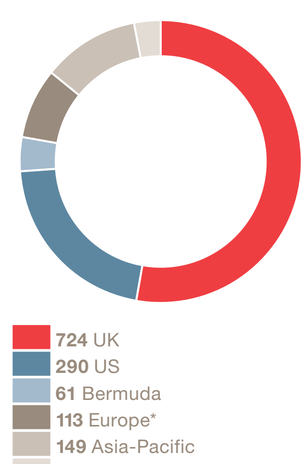
A Would recommend Catlin to family/friends as a good place to work
B Rate Catlin's prospects as positive
C Good teamwork exists within department or function
D High opportunities for learning and development

Chart 2: Employee growth by year at 31 December



[1]Catlin and Wellington combined

Chart 3: Employees by location at 31 December 2009



*Employees in Brazil and Colombia are included in the European underwriting hub

Chart 4: Employee growth by underwriting hub - 2009

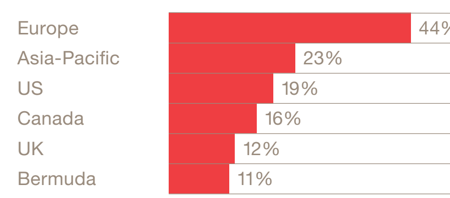
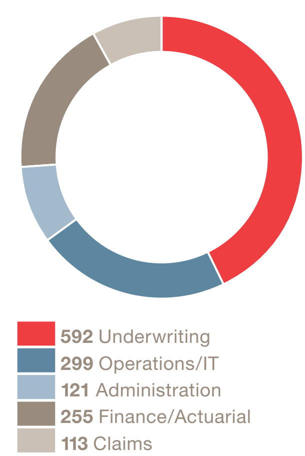
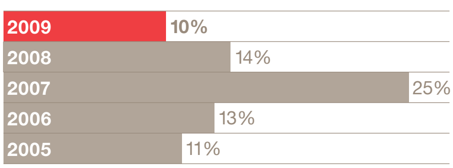


Chart 5: Employees by function at 31 December 2009



Employees and Culture continued

Chart 6: Employee turnover rate (%)*



*Including agreed departures

One of the Group's key performance indicators is employee turnover. During 2009, the Group's employee turnover rate was 10 per cent (2008: 14 per cent). Catlin has historically had relatively low rates of employee turnover, although employee turnover increased during 2007, following the acquisition of Wellington Underwriting plc. However, after the integration of Wellington was completed, employee turnover has returned to what Catlin would consider normal levels. (see Chart 6).

The Group during 2009 implemented a new human resource information system, which provides core HR administration and global reporting. This system will be used to support compensation reviews, the appraisal process, and training and recruitment administration.

Remuneration

In order to meet its goal of being the employer of choice in its business sector and to attract high-quality employees, Catlin offers competitive remuneration packages to attract, retain and motivate staff.

Remuneration, particularly with respect to the Executive Directors and other senior executives, is designed to create incentives to meet financial and strategic objectives set by the Board of Directors, primarily through variable bonus and share plan components. This policy is to align executive rewards with the creation of shareholder value.

The Group's bonus programme includes all permanent employees. The programme is based on the Group's profitability (return on equity and pre-tax profit). Individual awards are based on the performance of the Group, the employee's function or team, and the individual's own performance.

Further details regarding the bonus plan are contained in the Directors' Remuneration Report on page 95.

During 2009, more than 500 of the Group's employees participated in the Group's Performance Share Plan ('PSP'), which is designed to reward participants for delivering growth in shareholder value. The PSP offers employees conditional awards of shares (or nil-cost share options); the vesting of these awards depends on the achievement by the Group of performance conditions based on the increase in net asset value per share. Further details regarding the PSP are also contained in the Directors' Remuneration Report.

The Company during 2009 expanded the scope of its 'save as you earn'-type employee share purchase plans. The 'Sharesave' plans were first offered to employees in the UK and the US in 2008, and during the past year International Sharesave plans were offered to employees in Bermuda, Canada, Germany and Singapore.

All of these plans offer employees the opportunity to purchase options to buy Catlin shares at a discount to market value through monthly salary contributions.

The International Sharesave initiative was judged the 'Best International Share Plan' for companies with fewer than 1,000 employees outside the UK in the 2009 'ifs ProShare Awards'. ifs ProShare was established in 1992 in the UK to promote employee share ownership ('ESO') and acts as the voice of the ESO industry in the UK. In presenting the award to Catlin, the judges noted: "This was a tremendous effort by a smaller company to go the extra mile and with high take-up levels was clearly a success".

Catlin offers employees a range of non-monetary employee benefits, including pension, life insurance and medical plans. As an international employer, the benefits offered to employees vary from country to country, taking into account local laws and practices.

During 2009 Catlin completed a comprehensive review of the Group's UK benefits programme. Whilst the benefits provided were found to be attractive and well positioned, some changes were introduced in 2009 or will be introduced in 2010 to better align benefits with the Group's culture and employee needs. These include enhancements to the maternity policy and implementation of the UK government's 'Cycle to Work' programme, which provides employees with tax-efficient access to bicycles.

Learning and development

Catlin believes employees must be supported by a wide range of learning and development opportunities if they are to perform to their greatest potential.

Catlin Development Programme

Catlin established the Catlin Development Programme ('CDP') during 2009. The programme aims to deepen the Group's talent pool by combining the recruitment of graduates with the identification of talented employees currently in the early stages of their career at Catlin. The programme represents a core investment in the Group's future.

The CDP is an intensive mix of personal development, professional qualifications and cross-departmental business rotations. These rotations will allow participants to develop specialist knowledge within their own functional area, whilst building relationships with other teams and gaining a wider, commercial understanding of Catlin's business.

Throughout the two-year programme, participants will also undertake appropriate industry-related qualifications to develop the technical and theoretical knowledge required to perform their duties. In addition to learning 'on the job', courses focusing on personal development will be offered.

A second group of recent graduates and existing Catlin employees will be selected for the CDP in 2010. Whilst the programme was focused on UK participants during 2009, the Group plans to extend the CDP to the US, Asia-Pacific and European underwriting hubs in 2010.

Other programmes

During 2009 Catlin introduced a core curriculum of formal development opportunities aligned to the Group's business needs and the professional goals of individual employees. This curriculum includes a variety of technical programmes, for both underwriters and non-underwriting employees. The Group also provides enhanced support for those studying industry recognised professional qualifications. The number of employees undertaking Catlin-sponsored development opportunities increased by 31 per cent during 2009.

The Group during the past year has also introduced a number of management development and skills development courses, offered specifically on behalf of Catlin, to furnish employees with development opportunities at different stages of their careers. The courses also allow employees to network with peers and build relationships with other employees across the Group. Catlin has also initiated a worldwide programme for managers conducting performance appraisals, so that appraisals are managed fairly and transparently Group-wide.

Catlin also continues to invest in senior leadership development, supporting programmes with a number of global business schools. In 2010, the Group will introduce a global management programme in conjunction with the Ashridge Business School in the UK. The programme is designed to enhance participants' underlying management skills as well as reinforce Catlin's core values.

Disabled persons

Catlin gives full and fair consideration to applications for employment made by disabled persons and provides specialised training and career development for employees with disabilities where appropriate. If an employee were to become disabled, the Group would make arrangements insofar as possible to continue that person's employment and/or to provide training for another suitable position.

Equal opportunities

The Group is committed to fair and equal employment opportunities for all persons and extends fair and equal employment opportunities without regard to race, colour, religious belief, gender, sexual orientation, national or ethnic origin, age or disability.

Catlin seeks at all times to comply with legislation governing non-discrimination in employment. The Group employs individuals for available positions who are qualified on the basis of merit and ability alone. This policy applies to all terms and conditions of employment, including, but not limited to, recruitment, hiring, placement, promotion, demotion, transfer, rates of pay or other forms of compensation, termination, redundancy, training, use of all facilities and participation in all Catlin-sponsored employee activities.

The Catlin Brand

Highlights:

– The Catlin Arctic Survey was the main thrust of Catlin's brand-building activities in 2009
– The Catlin Arctic Survey produced media coverage valued at more than US$30 million
– Other activities included expanded online presence, the Catlin Art Prize and advertising campaigns

The Catlin brand was further strengthened during 2009 by the Group's sponsorship of the Catlin Arctic Survey as well as several other marketing/branding initiatives.

Catlin Arctic Survey

The 2009 Catlin Arctic Survey (see pages 10 to 17) was the cornerstone of Catlin's brand-building activities during the past year. Catlin sponsored the survey to increase the amount scientific data relating to environmental change as well as to strengthen the Catlin brand worldwide.

The 10-week expedition – during which three polar explorers trekked 450 kilometres to take more than 15,000 observations and measurements of the floating Arctic sea ice – received widespread print and broadcast media coverage before, during and after the survey. A BBC television crew flew to the Arctic to broadcast interviews with the team of explorers at the end of their journey.

In addition, a scientific report issued in October by a team of University of Cambridge researchers, based on the data collected by the survey, received extensive print and broadcast coverage worldwide.

The Catlin Arctic Survey website (www.catlinarcticsurvey.com) received hundreds of thousands of hits during the expedition. Reports from the website were also posted on social networking websites such as Facebook and Twitter.

Altogether, the Catlin Arctic Survey generated more than 3 billion 'opportunities to see' ('OTS') in more than 45 countries worldwide. A specialist media analysis company estimated that these OTS could be conservatively valued at the equivalent of at least US$30 million in advertising expenditure.

Broadcast media which covered the Catlin Arctic Survey and the subsequent scientific reports included ABC, CBS and the Discovery cable channels in the United States; the BBC, Sky, ITV and Channel 4 in the UK; and international broadcasters including CNN, the Canadian Broadcasting Corporation and Al Jazeera. The survey was covered by all UK quality daily newspapers, including the Financial Times, whilst news service articles – including coverage by Reuters, the Associated Press, the Press Association, Agence France Presse and Bloomberg – were published by newspapers in the United States and many other nations. Major insurance newspapers and magazines also devoted extensive coverage to the survey.

In November Chief Executive Stephen Catlin was interviewed by the daily BBC news programme 'Newsnight' regarding Catlin's sponsorship of the survey.

Catlin leveraged its sponsorship of the Catlin Arctic Survey in other ways:

- A Catlin advertising campaign relating to the Catlin Arctic Survey was launched in connection with the survey. The ads appeared in print and/or online editions of such media as the Financial Times, Wall Street Journal, Yahoo Finance, Business Insurance and the Asia Insurance Review.
- Newsletters were produced before, during and after the expedition, allowing brokers and policyholders to keep up with the survey's activities.
- Branded merchandise – including polar bear puppets and stress balls – were distributed to brokers and clients.

In May 2009 a group of insurance brokerage executives accompanied Stephen Catlin and Chief Underwriting Officer Paul Brand to Svalbard, an archipelago in the Arctic Ocean midway between mainland Norway and the North Pole. The trip aimed to educate the executives – from brokers Aon, Marsh and Miller – about Catlin's involvement in climate change research and the implications of climate change for the international insurance industry. As well as attending seminars and presentations about the Arctic environment, the group experienced first-hand some of the daily issues and hardships faced by polar explorers.

Catlin Art Prize

Catlin since 2007 has sponsored the Catlin Art Prize, which recognises the talents of recent graduates of UK art schools. The competition has increased in both number of entries and prestige during each of the past three years. The prize aims to promote Catlin's Fine Art underwriting team, which is one of the leaders in Fine Art insurance in the London market.

Catlin is significantly expanding the competition and collateral activities during 2010. The prize will be awarded in May, followed by a 10-day exhibition of the works submitted by the winner and other finalists. In addition, Catlin has published 'The Catlin Guide', an overview of new British art which includes profiles of 40 of the most promising new graduate artists in the UK. The book was launched at the London Art Fair in January 2010.

More information about the Catlin Art Prize and the Catlin Guide is available at www.artcatlin.com, a website launched in early 2010.

Online

Catlin increased its presence on the internet substantially during 2009 and in early 2010.

In addition to the Group's corporate website (www.catlin.com) and the Catlin Arctic Survey and Art Catlin websites, new websites specifically devoted to the Group's US and European underwriting hubs were launched. The European website will be translated during 2010 into major European languages including German, French, Spanish, Italian, Dutch and Norwegian. This website complements a site launched by Catlin's Canadian underwriting hub several years ago.

A Catlin Asia-Pacific website will be launched during 2010.

Catlin also expanded websites devoted to specific products. 'Fleet Directions', a website designed for Catlin's motor fleet policyholders in the UK, was completely redesigned during 2009.

The site not only furnishes information about Catlin products, but also offers policyholders sophisticated tools by which to manage motor fleet data and reduce their fleets' carbon emissions. 'Catlincargo.com', a website that allows UK marine cargo brokers to obtain online premium quotations, also was launched during the year.

Advertising/sponsorship

Catlin also expanded its advertising activities during the past year. Whilst the Catlin Arctic Survey was the centrepiece of Catlin's marketing campaigns during the year, other initiatives included:

- Product-specific advertising campaigns. Among the subjects of these campaigns, which appeared in specialised trade newspapers and magazines, were Catlin's Motor Fleet and Product Recall insurance products.
- A renewed campaign appearing in the US insurance trade publications to promote Catlin US.
- A series of ads highlighting the recognition won by Catlin's London-based claims team (see page 65).

Catlin also expanded promotional initiatives at major insurance industry conferences in the UK, US, Canada, Europe, Asia and Australia. Catlin sponsored exhibits at a diverse collection of conferences during 2009 including the British Insurance Brokers Association conference in Glasgow, the Federation of European Risk Management Association conference in Prague and the National Insurance Brokers Association convention in Sydney.

In total, Catlin underwriters attended more than 70 conferences worldwide during 2009.

Investor Relations

Highlights:

- Catlin aims to communicate openly and regularly with the investment community
- Corporate, nominee and institutional shareholders hold 90 per cent of the Group's shares
- The total shareholder return provided by Catlin shares amounted to 151 per cent over a five-year period

Catlin aims to ensure that shareholders and the investment community are kept informed regarding the Group's progress. All shareholders receive the Annual Report and Accounts and the Half-Yearly Results Statement. The Group regularly updates the Investor Relations section of the Catlin website (www.catlin.com/cgl/ir), including the prompt announcement of regulatory filings. The most recent Catlin press releases can be found at www.catlin.com/cgl/media/.

The Group also makes presentations to analysts following the announcement of the annual and interim results. In addition, Catlin holds an annual 'Investor Day' for institutional investors and analysts; the November 2009 Investor Day focused on the Group's operations outside the UK and its Enterprise Risk Management initiative.

Copies of these presentations are available on the Catlin website. Webcasts of the annual and interim results presentations are broadcast live on the Catlin website.

Table 1: Catlin share price information (pence)

Maximum price during 2009	398.01
Minimum price during 2009	282.75
Price at 31 December 2009	340.00
Average daily trading volume on London Stock Exchange during 2009 (000s)	1,460

On-demand versions of these webcasts and webcasts of the Investor Day presentations are available for six months following the date of the presentation.

Members of the Group's management team also meet frequently with analysts and institutional investors. During 2009 management met with more than 100 existing or potential equity investors.

With the assistance of the Group's corporate brokers and investor relations advisors, management and the Board of Directors receive feedback from investors following major presentations.

Catlin shares and shareholder base

Catlin Group Limited common shares are listed on the London Stock Exchange (trading symbol 'CGL') under 'Insurance'. The company's share price is available on all recognised online databases as well as on a daily basis in UK newspapers including the Financial Times, The Times, The Daily Telegraph, The Independent and the Evening Standard.

At 31 December 2009, there were 1,615 shareholders on the Group's register (2008: 1,394). The breakdown of these shareholders is analysed in Table 2 and Charts 3 and 4.

Chart 3: Shareholders by type at 31 December 2009

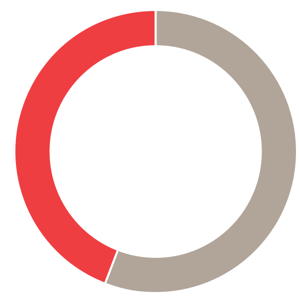
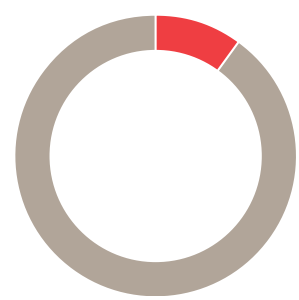


Chart 4: Shareholders by percentage of shares held at 31 December 2009



A listing of Catlin's major shareholders (those which hold 3 per cent or more of the Company's share capital) is available on the Catlin website and is updated regularly.

Total shareholder return

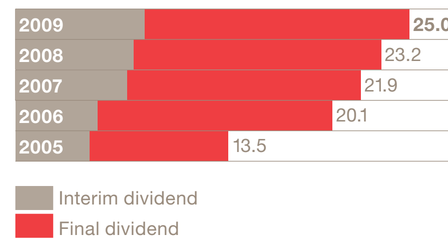
The total shareholder return produced by Catlin shares from 1 January 2005 to 31 December 2009 compared with the FTSE 350 Index is shown in Chart 5.

Table 2: Breakdown of shareholders at 31 December 2009

Shares owned	Number of shareholders	Percentage of shareholders	Total shares owned	Percentage of total shares
0-50,000	1,296	80%	6,930,690	2%
50,001-100,000	74	5%	5,381,541	1%
100,001-500,000	149	9%	35,448,876	10%
500,001-1,000,000	34	2%	24,843,181	7%
1,000,000-5,000,000	45	3%	109,682,982	31%
5,000,000-10,000,000	10	1%	69,144,350	19%
More than 10,000,000	7	–	107,463,605	30%
Total	**1,615**	**100.0%**	**358,895,225**	**100.0%**

Chart 5: Total shareholder return – 1 January 2005 through 31 December 2009

Chart 6: Dividend history (pence)[1]



[1]Pre-2009 amounts restated for impact of 2-for-5 Rights Issue in March 2009

Analyst coverage

During the past year, 20 analysts have published research notes regarding the Group. Current analysts and their contact information are listed in the Investor Relations section of the Catlin website.

Dividends

Catlin is committed to providing an attractive return to shareholders through dividends. The payment of dividends is linked to recent trends in the Group's performance as well as to its future prospects. The Group aims to increase dividends incrementally on a year-to-year basis. Chart 6 shows the Group's dividend history.

The final dividend for the year ended 31 December 2009 of 16.8 pence (26.2 US cents) per share is payable on 26 March 2010 to shareholders of record at the close of business on 26 February 2010. The dividend is payable in sterling, except for shareholders who have elected as at the date of this report (10 February 2010) to receive their dividends in US dollars.

Shareholders who wish to receive dividends in US dollars in the future should contact the Company's registrar, Capita Registrars (Telephone: 0871 664 0300 in the UK (calls cost 10p per minute plus network extras) or +44 (0)20 8639 3399 elsewhere; lines are open 8.30am until 5.30pm in the UK).

Dividends on the Catlin American Depositary Receipts ('ADRs') are payable in US dollars by the US depositary bank.

ADRs

Catlin's American Depositary Receipts trade on the Over the Counter ('OTC') market under the following details:

Symbol: CNGRY
CUSIP: 149188104
ADR/common share ratio: 1:2
US ISIN: US1491881041
Underlying ISIN: BMG196F11004

Debt investors

Particulars of the preferred shares issued by the Catlin Group are as follows:

Issuer: Catlin Insurance Company Ltd.
Securities: Non-Cumulative Perpetual Preferred Shares
Issue date: 18 January 2007
Redemption: Redemption on and after 19 January 2017 at the issuer's option
Nominal total: US$600 million
Dividend rate: 7.249 per cent per annum for the first 10 years
Dividend dates: 19 January and 19 July
Ratings: BBB+ Standard & Poor's; bbb A.M. Best

Annual General Meeting

The Annual General Meeting will be held at noon on Wednesday 6 May 2010 at the Catlin Group offices at Cumberland House, 6th Floor, 1 Victoria Street, Hamilton, Bermuda HM 11. Shareholders are encouraged to attend the meeting.

Shareholder and investor enquiries

Shareholders should contact the Catlin Investor Relations Department (telephone: +44 (0)20 7458 5726; e-mail: investor.relations@catlin.com) if they have questions regarding the Group. For enquiries regarding share or depository interest registration, please contact Catlin's registrar, Capita Registrars (telephone: 0871 664 0300 in the UK; calls cost 10p per minute plus network extras; or +44 (0)20 8639 3399 elsewhere). Lines are open 8.30am to 5.30pm in the UK.

Events calendar

Date	Event
26 March 2010	Payment of final 2009 dividend
6 May 2010	Annual General Meeting
6 August 2010	Announcement of half-yearly results for the period ending 30 June 2010
September 2010	Expected payment of interim 2010 dividend
February 2011	Expected date of announcement of 2010 financial results

Corporate Responsibility Report

Highlights:

- Catlin is the principal sponsor of the Catlin Arctic Survey, a major initiative to gather more knowledge about the impact of climate change
- Other environmental activities include participation in ClimateWise and measurement of the Group's carbon footprint
- Catlin is incorporating environmental awareness in its business activities
- Catlin participates in substantial charitable and community involvement activities

Catlin's Board of Directors recognises the importance of high standards of corporate social responsibility. The Group's operations have social, environmental and ethical implications, and Catlin's corporate behaviour aims to reflect its responsibilities to shareholders, clients and other stakeholders.

Environmental

As an insurer, Catlin's direct actions do not impact the environment to the same extent as many other companies. Nevertheless, in parallel with Catlin's ambition to build a business for the future, the Group is committed to protection of the environment to benefit future generations.

Catlin Arctic Survey

Catlin affirmed its commitment to the environment during 2009 through its sponsorship of the Catlin Arctic Survey. Catlin decided to sponsor the survey because of the serious implications that climate change creates for the insurance industry and its policyholders.

The objective of Catlin's participation is to aid scientists in obtaining the crucial, impartial data they require to make more reliable conclusions about the impact of climate change and other changes to the environment and the new risks they could create.

The 2009 Catlin Arctic Survey consisted of an expedition that measured the thickness of the sea ice surrounding the North Pole. The survey's aim was to determine, with a much greater degree of accuracy, when the floating Arctic sea ice could disappear as a result of climate change.

Following the 10-week expedition, the sea ice observations and measurements collected by three explorers were interpreted by scientists at the University of Cambridge. Their conclusion – that the Arctic will be ice-free during summers within approximately 20 years, with most of the decrease occurring within 10 years – received significant media attention and was presented at the United Nations Climate Change Conference held in December 2009 in Copenhagen.

In the light of the success of the 2009 survey, Catlin is continuing its sponsorship of environmental research through the 2010 Catlin Arctic Survey. The 2010 Catlin Arctic Survey includes the establishment of an Arctic 'Ice Base', providing an opportunity for scientists to conduct first-hand research. The major studies to be conducted at the ice camp will focus on ocean acidification. The 2010 Catlin Arctic Survey will also feature another expedition by polar explorers to take further measurements of the Arctic sea ice in a different location from the 2009 expedition.

A full report on the Catlin Arctic Survey appears on pages 10 to 17.

Aligned with the Catlin Arctic Survey is a separate programme, 'Arctic Survey Education'. Arctic Survey Education is an initiative to promote climate change awareness through the production and distribution of education resources for students ranging in age from 5 to 19 years. More information is available at www.articsurveyeducation.com.

Funding for Arctic Survey Education is supplied by a group of businesses and organisations, both within and outside the insurance industry. Catlin is a major contributor to Arctic Survey Education.

ClimateWise

Catlin participates in ClimateWise, another major initiative related to climate change. In 2007 Catlin Underwriting Agencies Limited ('CUAL'), a Group subsidiary which manages the Catlin Syndicate at Lloyd's, joined ClimateWise, which is supported by various organisations participating in the UK insurance sector, including Lloyd's and the Association of British Insurers.

By joining ClimateWise, insurance companies such as Catlin agree to embed the organisation's six principles in their business activities:

- Lead in risk analysis;
- Inform public policy-making;
- Support climate awareness amongst customers;
- Incorporate climate change into investment strategies;
- Reduce the environmental impact of their own business; and
- Report and be accountable.

All ClimateWise participants are required to report annually on their compliance with a set of principles to reduce society's long-term risk from climate change. Based on its 2009 report, Catlin has been identified by ClimateWise as among the top performers among the 40 participants. Excerpts from Catlin's 2009 report to ClimateWise are available on the Group's website at www.catlin.com/cgl/ir/corporate_governance/climatewise/.

Business activities

In conjunction with its participation in the Catlin Arctic Survey and ClimateWise, Catlin promotes climate change modelling and awareness in its underwriting activities.

Catlin has undertaken a detailed evaluation of climate change model projections derived from the Intergovernmental Panel for Climate Change (IPCC) and other independent bodies to assess the potential impacts of gradual and extreme climate events in key worldwide regions. This and continual climate change research forms an integral part of the Group's business strategy review.

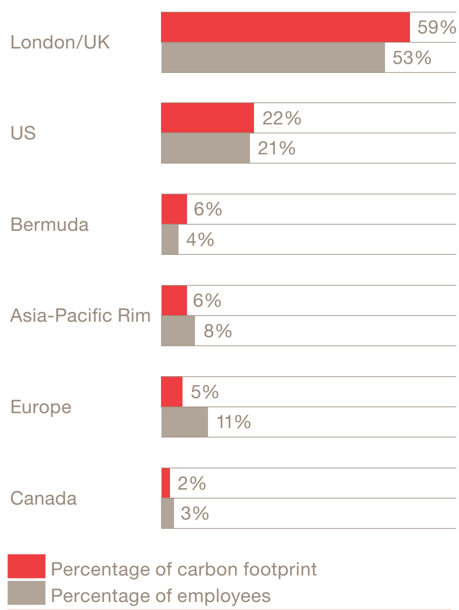
Catlin has started using the latest climate model projections to perform sensitivity studies and enable the assessment of potential future losses in key regions in which Catlin currently underwrites. The Group is currently conducting detailed research to identify whether there are climate change models/tools which Catlin can adopt to provide an improved understanding of local climate change at shorter timeframes and support improved future strategic decision-making relating to risk pricing and allocation. In addition, the Group is conducting research to identify potential threats to existing insurance and reinsurance products and opportunities for new product and service opportunities due to climate change and the low carbon economy.

During 2009 Catlin advised and encouraged customers to adapt their behaviour with regard to climate change with the launch of 'FleetDirections' (www.fleetdirections.com), an online tool available to motor fleet policyholders. Through FleetDirections, Catlin provides Motor Fleet policyholders with 'green fleet' services including a free CO_2 emissions calculator and carbon health check. Catlin believes it is the first insurer in the UK to recognise green credentials when pricing Motor Fleet insurance.

Carbon monitoring and offsetting

Catlin during 2009 commissioned a recognised carbon monitoring firm to calculate in separate studies the carbon footprint of its UK offices – which comprise more than 50 per cent of the Group's workforce – and its non-UK offices. The firm measured 'Scope 1' (natural gas and refrigerant leakage) and 'Scope 2' (electricity) emissions associated with the offices in which Catlin is based. 'Scope 3' emissions sources – including business travel by air and rail, paper, water and waste – were also included in the study based on available data.

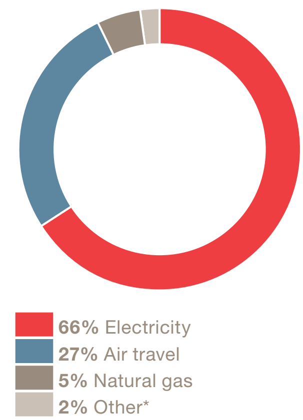
Chart 1: Catlin's global carbon footprint



The studies concluded that the total carbon footprint of Catlin's global operations and its UK operations during 2008 amounted to approximately 7,300 tonnes of CO_2. As this was the first year of the study, there is no comparator as to whether the Group's carbon footprint is increasing or decreasing.

The largest contributors to the carbon footprint of Catlin's UK offices were electricity (approximately 66 per cent of the total), air travel (27 per cent) and natural gas (5 per cent). Outside the UK the largest contributor was electricity use (approximately 54 per cent of the total), followed by air travel (29 per cent) and natural gas (9 per cent).

Chart 2: Catlin carbon footprint - UK offices



*Other includes paper, water, landfill waste, rail travel and refrigerants

As Catlin leases all of its premises, it does not have direct influence over the supply of electricity and natural gas in these offices. However, wherever possible, Catlin does work with landlords to promote environmentally friendly office design. The Group will move to new offices in London during 2011, and it is currently working to ensure that these offices will be as environmentally efficient as practicable.

The company also attempts to make good environmental practice part of its everyday activities. For example, a comprehensive document scanning system enables employees worldwide to view documents electronically rather than on paper, minimising waste. The Group also encourages employees wherever possible to recycle paper and other renewable products. IT equipment and furniture which are no longer fit for use by the Group are donated wherever possible to schools and charities.

Catlin offsets the carbon emissions created by UK employees' air travel through a contract with the Carbon Neutral Company, a leading carbon offset and climate consulting business. During 2009, Catlin offset 1,200 tonnes of carbon emissions relating to air travel. The 'offset credits' purchased by Catlin have been used to finance the Sterksel Biogas Project in the Netherlands. This project includes

Corporate Responsibility Report continued

the construction of biogas facilities at five farms, which will reduce methane emissions to the atmosphere and displace fossil fuels used to heat local buildings.

The Group utilises video conferencing capabilities in offices in Bermuda, the United Kingdom, the United States, Europe and Asia to encourage employees, where possible, to conduct both internal and external meetings via video conference rather than air travel.

Catlin during 2009 joined the Carbon Disclosure Project ('CDP'), an initiative established in 2000 to collect and distribute high-quality information about businesses' carbon emissions. More than 2,500 organisations in some 60 countries now participate in the CDP.

Ethical

Catlin is committed to the highest standards of ethical behaviour. The Board has considered significant risks, including regulatory and reputational risk, that could arise from ethical issues and, as a result, the Group has reviewed, revised and adopted relevant policies and procedures. In particular, the Board has adopted the Catlin Code of Ethical Conduct, which is available on the Group's website (www.catlin.com/cgl/ir/corporate_governance/ethical_conduct). The Code of Ethical Conduct describes the commitment by Catlin and its employees to conduct its affairs in a fair, proper and ethical manner and in compliance with applicable laws, regulations and professional standards. All new employees are obliged to agree that they will abide by the Code, and employees reaffirm their concurrence with the Code on an annual basis.

The Group has put in place other ethical policies regarding such subjects as document retention, broker remuneration, inside information, share dealing, whistle-blowing, data security, fraud prevention and money laundering. All of these policies can be readily accessed by all Catlin employees via 'The Catwalk', the Group's intranet.

The policies are part of how the Group and its employees behave and form an integral part of the Code of Conduct.

The Board recognises that to maintain an ethically aware corporate culture requires not only policies and procedures, but more importantly leadership by example, and it, together with executive management, strives to achieve that goal. Employees are encouraged to seek guidance from managers if they do not understand their responsibilities or have questions.

Treating customers fairly

Catlin is committed to ensuring its clients are treated fairly at all times. The Group strives to achieve this by working closely with clients, brokers and coverholders to provide bespoke innovative solutions to meet their specific insurance needs, issuing clear and accurate quotes, providing policy documents quickly, and by offering a high-quality claims handling service to ensure that all valid claims are paid promptly. Such behaviour is correct practice and benefits the Group by helping to secure the loyalty of clients, brokers and coverholders.

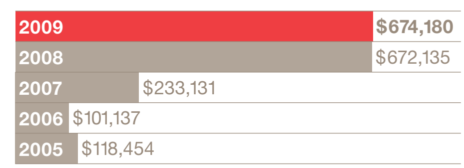
Dealing fairly and honestly with customers is fundamental to Catlin and is a cornerstone of the Code of Ethical Conduct.

The fundamentals of treating customers fairly ('TCF') apply throughout Catlin. Principles governing the TCF programme are available to all employees via the Group's intranet.

Charitable giving and community involvement

The Group makes charitable contributions and encourages employee involvement in community programmes. Catlin during 2007 established a Group-wide Charity Committee to manage the Group's charitable contributions and activities on a centralised basis; this committee met frequently during 2009 and has directed a marked increase in the Group's charitable giving and community involvement activities.

Chart 3: Charitable donations (US$)



The Group has instituted several programmes which encourage employee charitable giving and involvement. Through one of these programmes, the Group grants time off to employees participating in Catlin- or Lloyd's-approved community involvement projects, primarily reading and mentoring programmes. Under another programme the Group will match funds raised by an employee on behalf of a qualified charity up to an annual limit of US$1,000. In the UK Catlin also operates a 'Give As You Earn' programme through which the Group will match qualified employee charitable contributions up to a limit of £600 per year.

The Group made total charitable donations of US$674,180 during 2009 (2008: US$672,135).

Catlin's charitable and community activities are concentrated in Bermuda, the Group's headquarters, and in the United Kingdom, where the majority of the Group's employees are based.

Bermuda

In Bermuda, the Group's charitable and community involvement activities are focused on several key initiatives.

The first is a partnership with Cedarbridge Academy, one of Bermuda's two public secondary schools. The goal of this programme is to encourage young Bermudians to strive to achieve the academic standards required to enter the international insurance industry. Catlin contributes toward tuition and fees as well as academic support for selected students in connection with their post-secondary education. The support is contingent upon the students attaining certain grades, attendance and conduct standards.

Each participating student is individually mentored by a Catlin employee. To date, 14 students have participated in the programme.

Catlin is the title sponsor of the annual 'Catlin End to End', Bermuda's largest charitable fund-raising event in which more than 2,500 people make their way across the island – by walking, swimming, rowing, paddling or cycling.

The 2009 event, taking place in a year of numerous community events celebrating Bermuda's 400th anniversary, proved to be the most successful ever, attracting record numbers of participants and raising more than US$400,000 for local charities.

Catlin is also one of five principal sponsors of the Bermuda Festival of the Performing Arts, a 35-year-old series of events that feature performances by artists worldwide from a range of diverse disciplines.

United Kingdom

In the UK, employees annually select two charity partners. Catlin makes significant financial donations to both charities and raises additional funds for these charities through employee activities promoted by the company.

During 2008 and 2009, the UK charity partners were:

- Havens Hospices, which provides hospice care for both adults and children who are suffering from life-limiting illnesses, and
- Starlight Children's Foundation, which grants 'wishes' to seriously and terminally ill children and provides entertainment to other ill children.

Catlin's UK employees have selected two new charity partners for 2010:

- The Alzheimer's Society, which works to improve the quality of life of people affected by dementia, and
- Dame Vera Lynn Trust, a charity based in West Sussex which provides support to children with cerebral palsy and their parents and carers so that the children can achieve their maximum potential and lead as independent a life as possible.

Catlin also provides support to the Sick Children's Trust, a UK-based charity which provides support and accommodation for the families of children undergoing hospital treatment. Stephen Catlin is Chairman of the Sick Children's Trust and other executives contribute time to the charity.

During 2009 Catlin established a partnership with St Paul's Way Community School in the London borough of Tower Hamlets, which adjoins the City of London. Through the partnership, Catlin has become a trustee of St Paul's Way, which has long been considered an underperforming secondary school. In addition, Catlin employees serve as reading partners, mentors and coaches for St Paul's Way students.

Also during 2009 Catlin joined Business in the Community, a UK business-led coalition dedicated to corporate responsibility which sponsors community involvement and environmental initiatives. Catlin's participation in Business in the Community will help the Group further develop its corporate responsibility strategies.

Catlin sponsors the annual Catlin Art Prize, a competition for recent graduates of UK art schools. More information about the prize and Catlin's involvement in other art-related projects appears on page 76.

Catlin was a key participant in the 2009 Prince's May Day Summit, sponsored by Business In the Community and HRH The Prince of Wales. The programme, which was held simultaneously at 10 locations in the UK, included a live broadcast from the Arctic by Pen Hadow, leader of the Catlin Arctic Survey. The purpose of the summit was to raise awareness among businesses of the need to address climate change-related issues.

Catlin offices outside Bermuda and the UK also participate in charity and community involvement programmes. In the United States Catlin has established a scholarship award at Georgia State University in Atlanta which annually benefits two students studying actuarial science or risk management and insurance.

Health and safety

The Group takes all appropriate efforts to ensure the health, safety and welfare of its employees at work and of those who may be affected by Catlin's operations. Employees are expected to take reasonable care for their own health and safety at work as well as those of others and to co-operate with management to create a safe and healthy working environment. The discharge of health and safety responsibilities is accorded equal priority with that of other statutory duties and objectives.

FTSE4Good

In recognition of its efforts toward corporate responsibility, Catlin since 2007 has been a member of the FTSE4Good index.

Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Membership in the FTSE4Good indicates that companies have met stringent social and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice.

Board of Directors

Sir Graham Hearne
Chairman
Sir Graham Hearne was appointed Chairman of Catlin in February 2003. He was formerly Chairman of Enterprise Oil plc, having previously served as Chief Executive. He practised as a lawyer at Pinsent & Co, Herbert Smith & Co and Fried, Frank, Harris, Shriver & Jacobson. He served with the Industrial Reorganisation Corporation before joining NM Rothschild & Sons Ltd, where he remains a Non-Executive Director. He has also served as Deputy Chairman of Gallaher Group plc, Finance Director of Courtaulds Limited, Chief Executive of Tricentrol plc and Group Managing Director of Carless, Capel & Leonard plc. He is currently Non-Executive Chairman of Braemar Shipping Services plc and Stratic Energy Corporation. He is a Non-Executive Director of Rowan Companies Inc and Wellstream Holdings plc. He was High Sheriff of Greater London from 1995 to 1996. Age 72

Stephen Catlin
Chief Executive and Deputy Chairman
Stephen Catlin began his insurance career in 1973 joining BL Evens & Others on Syndicate 264 at Lloyd's. He founded Catlin Underwriting Agencies Limited in 1984 and was the Active Underwriter of Syndicate 1003 and later Syndicate 2003 until May 2003. From 1996 to 2002, he was the Lloyd's nominated Director of Equitas Holdings Limited. He served as Chairman of the Lloyd's Market Association, the trade association representing the interests of Lloyd's underwriters and underwriting agents, from 2000 until 2003. He was a member of the Council of Lloyd's from 2002 until 2004 and a member of the Lloyd's Franchise Board from 2003 until 2006. He is currently Deputy President of the Insurance Institute of London and is a Visiting Fellow at the Oxford University Centre for Corporate Reputation. Age 55

Benjamin Meuli
Chief Financial Officer
Benjamin Meuli was appointed an Executive Director of Catlin in June 2009 and became Chief Financial Officer on 1 September 2009. He served as Chief Investment Officer and a member of the Executive Board of Swiss Re from 2004 to 2008. From 1998 to 2004 he served as a Managing Director of Morgan Stanley with primary responsibility for asset and liability management issues linked to large multinational insurance groups, including all areas of investment banking, fixed income, equities and real estate. Prior to joining Morgan Stanley he had a 20-year career with JP Morgan where he served as a Managing Director in charge of European Debt Capital Markets and the European Financial Institutions Group. He also served as Chief Executive of JP Morgan Life Assurance Ltd. Age 53

Guy Beringer
Non-Executive Director
Guy Beringer was appointed as a Non-Executive Director of Catlin in December 2009. He served as Senior Partner of Allen & Overy, the international law firm, from 2000 until his retirement in 2008. He is Non-Executive Chairman of the Export Credits Guarantee Department Management Board. He is a Non-Executive Director of Fleming Family & Partners Ltd and London Irish Holdings Limited and a Non-Executive Board Member of HM Court Service. He was appointed a Queen's Counsel *(honoris causa)* in 2006 for his contributions to pro bono and legal services. Age 54

Alan Bossin
Non-Executive Director
Alan Bossin was appointed as a Non-Executive Director of Catlin in March 2004. He is counsel to Appleby, Barristers & Attorneys, of Hamilton, Bermuda, which he joined in 1999. He was previously at the Toronto insurance law firm of Blaney McMurty. He commenced his legal career with the Toronto firm of Gilbert, Wright & Flaherty, practising insurance defence litigation. He later joined the Insurance Bureau of Canada as Counsel and was Senior Vice President and Canadian General Counsel with insurance broker Johnson & Higgins. Age 58

Michael Crall
Non-Executive Director
Michael Crall was appointed as a Non-Executive Director of Catlin in October 2003. He was previously Chief Executive of Equitas Holdings Limited. He has also served as President and Chief Executive Officer of Argonaut Insurance Company, a US insurer specialising in casualty classes of business. He began his insurance career with Insurance Company of North America, later CIGNA Corporation, where he held a number of executive posts in the US, Paris and Brussels. He is Non-Executive Chairman of Arrowpoint Capital Corp. Age 66

Jean Claude Damerval
Non-Executive Director
Jean Claude Damerval was appointed as a Non-Executive Director of Catlin in July 2005. He has owned his own corporate finance consulting practice focusing on the international insurance industry since 1994. Mr Damerval previously served as Group Managing Director and Chief Executive Officer of International Operations for AXA Group and as AXA's Group Controller. He serves as a Non-Executive Director of Aurigen Re Capital Ltd, a Bermuda-based life reinsurer. He is also a Non-Executive Director of Grafton Holdings Limited (Guernsey) and Grafton (Europe) Insurance Company Limited (Malta), a niche property/casualty insurer. Age 66

Kenneth Goldstein
Non-Executive Director
Kenneth Goldstein was appointed as a Non-Executive Director of Catlin in May 2007. He was President and Chief Executive Officer of Universal Underwriters Group until his retirement in 1999. He also served as Executive Vice President of St Paul Fire & Marine Insurance Company, President of Swett & Crawford Management Co. and held various management positions at American International Group Inc. He previously was a Director of DirectFac Inc. and was a member of the advisory board of American Wholesale Insurance Group. Age 65

Robert Gowdy
Non-Executive Director
Robert Gowdy was appointed as a Non-Executive Director of Catlin in June 2009. He was President and Chief Executive Officer of CGU Insurance Group in the United States, from which he retired in 2001. He was the founder and Chief Executive Officer of American Sterling Insurance Company and also served as Chairman and Chief Executive Officer of Industrial Indemnity Company. He is a past-Chairman of the American Insurance Association. He is a member of the Casualty Actuarial Society and the American Academy of Actuaries. He is a Non-Executive Director of Ivans Inc. and Patriot Insurance Company. Age 66

Michael Harper
Senior Independent Non-Executive Director
Michael Harper was appointed Senior Independent Non-Executive Director of Catlin in July 2005. He was previously Chief Executive of Kidde plc and held senior management positions at both Kidde and with Vickers plc. He is Chairman of The Vitec Group plc, BBA Aviation plc and Ricardo plc. Age 65

Nicholas Lyons
Non-Executive Director
Nicholas Lyons was appointed as a Non-Executive Director of Catlin in August 2008. He was formerly a Managing Director of Lehman Brothers in London, where he headed the European Financial Institutions Group. Prior to joining Lehman Brothers, he held executive positions at JP Morgan & Co and Salomon Brothers in London. He is Non-Executive Chairman of Miller Insurance Services Limited, an international specialist insurance and reinsurance broker based in London. He is also a Non-Executive Director of Quayle Munro plc and Friends Provident Holdings (UK) Limited. Age 51

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2009.

Results and dividends

The Consolidated Statements of Operations on page 106 show a net profit available to common shareholders of US$509 million (2008: US$47 million loss).

The Directors propose a final dividend of 16.8 pence (26.2 cents) per share, payable on 26 March 2010 to shareholders on the register at the close of business on 26 February 2010. An interim dividend of 8.2 pence (13.8 cents) per share was paid on 25 September 2009.

Principal activities and review of business

Through its consolidated subsidiaries and subsidiary undertakings, the Company's principal activity is property and casualty insurance and reinsurance underwriting. A review of the Company's business and developments during the year is included in the Chairman's Statement, the Chief Executive's Review, the Business Review and other material on pages 18 to 33.

Substantial shareholdings

At 29 January 2010 the Company had been notified of the following interests of 5 per cent or more in its issued share capital:

	Number of shares	Percentage of shares in issue[1]
Invesco Perpetual	29,969,926	8.4%
Legal & General	26,283,492	7.3%
M&G	20,854,000	5.8%

[1]Based on shares in issue at 29 January 2010 of 358,895,225.

Warrants entitling the holders to purchase shares for US$4.37 per share are outstanding over 6,912,715 shares as at 10 February 2010.

Directors

The current Directors of the Company and their biographical details are shown on pages 84 and 85. Particulars of their interests in shares are given on page 87 and in the Directors' Remuneration Report on pages 95 to 103. Michael Eisenson retired as a Director on 30 June 2009, and Christopher Stooke retired on 31 August 2009. Robert Gowdy and Benjamin Meuli were appointed as Directors on 30 June 2009, and Guy Beringer was appointed as a Director on 8 December 2009.

Stephen Catlin and Kenneth Goldstein will retire by rotation, and each will offer himself for re-election as a Director at the 2010 Annual General Meeting ('AGM'). Messrs Gowdy, Meuli and Beringer, who were appointed as Directors by the Board, will also stand for election at the 2010 AGM. The Board has appraised the performance and reviewed the skills, experience and expected contributions of the candidates in the context of the Board's objectives and composition, and on that basis recommends their election.

Directors' interests

Directors' interests in shares

The beneficial interests of the Directors in office at the end of the financial year in the Common Shares of the Company at 31 December 2009 and at 1 January 2009, including the beneficial interests of any connected person, are set out in the table below:

	31 December 2009 number of Common Shares[1]	1 January 2009 number of Common Shares
Guy Beringer	–	–
Alan Bossin	–	–
Stephen Catlin	4,080,359	2,831,279
Stephen Catlin as one of the trustees of Catlin Settlement Trust	685,000	615,000
Michael Crall	20,741	14,815
Jean Claude Damerval	14,000	10,000
Kenneth Goldstein	31,500	22,500
Robert Gowdy	9,350	–
Michael Harper	56,000	40,000
Sir Graham Hearne	31,596	22,569
Michael Hepher[2]	83,741	59,815
Nicholas Lyons	–	–
Benjamin Meuli	250,000	–

[1]There has been no change in these interests since 31 December 2009 up to the date of this report
[2]Michael Hepher retired from the Board on 31 January 2010

Directors' share options

None of the Non-Executive Directors holds share options in the Company. Details of the Executive Directors' share options are disclosed in the Directors' Remuneration Report on pages 95 to 103.

Corporate governance

The Corporate Governance Report, which includes reports from the Board's Audit and Nomination Committees, immediately follows this report. The Directors' Remuneration Report, which includes details of the Board's Compensation Committee and is subject to approval by shareholders at the 2010 AGM, starts on page 95.

Business Review

The Business Review, which includes details of the Group's development and performance and the management report required by Rule 4.1.8 of the Disclosure and Transparency Rules, is set out on pages 18 to 79.

Directors' Responsibility Statement pursuant to Disclosure and Transparency Rule 4

The Directors confirm that, to the best of their knowledge:

- the Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the management report incorporated into the Business Review includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Corporate responsibility

The Board and the Company remain committed to high standards of corporate responsibility. Details of the Company's social, environmental and ethical policies as well as its policy on treatment of its employees are set forth in the Business Review on page 72 and the Corporate Responsibility Report on page 80.

Political and charitable donations

The Company made no political donations during the year. It is not the Company's policy to make political donations. Details of the Company's charitable donations are set forth on page 82.

Directors' Report continued

Share capital

General

As at 31 December 2009 the Company had an authorised share capital of $5,000,000 divided into 500,000,000 common shares of $0.01 each ('Common Shares'), of which 358,895,225 were in issue. The Company's shares are admitted to the Official List and are traded on the London Stock Exchange ('LSE'). The Common Shares themselves are not admitted to CREST (the electronic settlement system for the LSE), but dematerialised depositary interests representing the underlying Common Shares issued by Capita IRG Trustees Limited ('Capita Trustees') can be held and transferred through the CREST system ('Depositary Interests').

The rights attaching to the Common Shares are governed by the Bermuda Companies Act 1981 and the Company's Bye-Laws.

Rights attaching to shares

Subject to the detailed provisions of the Bye-Laws, shareholders may attend any general meeting of the Company and vote on any resolution put to the meeting by a show of hands. Each shareholder who is present in person or by proxy has one vote.

A poll may be demanded by at least three shareholders present in person or by proxy, or by the Chairman or by any shareholder(s) present in person or by proxy representing one-tenth of the total voting rights of shareholders entitled to vote at any such meeting.

On a poll every shareholder who is present in person or by proxy or (being a corporation) is present by a representative has one vote for every Common Share of which he is the holder. No shareholder may vote or be included in a quorum if any call or other sum payable by him to the Company in respect of any share remains unpaid.

The deadline for exercising voting rights by proxy is not less than 48 hours or such other period as the Board may determine prior to the holding of the relevant meeting or adjourned meeting.

The Board may, subject to the Bye-Laws and Section 54 of the Bermuda Companies Act, declare a dividend to be paid to shareholders in proportion to the number of shares held by them, and such dividend may be paid in cash or wholly or partly in fully or partly paid shares. Dividends unclaimed within six years of declaration are forfeited and revert to the Company.

In respect of the Depositary Interests, under the terms of the arrangements between the Company and Capita Trustees, Capita Trustees will pay dividends due on the underlying Common Shares to the holders of such Depositary Interests, although the Company may pay dividends direct to the holders of the Depositary Interests should it so wish.

On liquidation the liquidator may divide the whole or any part or parts of the assets of the Company among the shareholders, in whole or part, *in specie* or in kind, for such values as the liquidator may deem fair.

Transfer of shares

There are no restrictions on the transfer of the Common Shares in the Company other than:

- the Board may in its absolute discretion decline to register any transfer of shares which is not fully paid provided it does not prevent dealings in the Company's shares taking place on an open and proper basis;
- the Board may also decline to register any transfer if the instrument of transfer is in favour of more than five people or it is not satisfied that all applicable consents and approvals required to be obtained prior to such transfer have been obtained;
- certain restrictions may from time to time be imposed by laws and regulations (for example insider dealing laws);
- pursuant to the Company's share dealing guidelines whereby the Directors and employees of the Company (including their connected persons) require approval to deal in the Company's shares; and
- where a person with at least a 0.25 per cent interest in the Company's shares has been served with a disclosure notice and failed to provide the Company with information concerning interests in those shares.

Directors

The Company's Bye-Laws provide that the number of Directors shall not be less than five nor more than such number as the Board may by resolution determine. Directors are subject to retirement by rotation in successive three-year cycles. A retiring Director is eligible for re-election. Shareholders may nominate candidates for appointment as Directors by complying with certain requirements (including minimum notice required) set forth in the Bye-Laws.

The Board may appoint persons to be Directors either to fill a casual vacancy or as an additional Director. The office of a Director shall be vacated in the event of death, disability, bankruptcy, disqualification, resignation or request for removal by not less than three-quarters of the other Directors. The Bye-Laws provide for the appointment of alternate Directors.

A Director may be removed by a resolution of the shareholders at any general meeting provided that the relevant Director has been served with not less than 28 days' notice and has the right to be heard on the motion for his removal. Section 93 of the Bermuda Companies Act does not apply to the Company. Any removal of a Director shall be without prejudice to any claim such Director may have for damages for breach of any contract of service between him and the Company.

Changes to the Bye-Laws
No Bye-Law may be rescinded, altered or amended and no new Bye-Law shall be made until the same has been approved by a resolution of the Board passed by a majority of the Directors and by a resolution of the shareholders by a 75 per cent majority.

Power to issue shares
At the 2009 AGM, authority was given to the Directors to allot unissued relevant securities (as defined in the Bye-Laws) in the Company up to a maximum aggregate nominal value of US$1,191,954, being an amount equal to one-third of the shares in issue on 26 March 2009. In addition, in accordance with the Association of British Insurers guidelines, the Directors were given authority to allot relevant securities in the Company up to a maximum aggregate nominal value of $1,191,954 for a fully pre-emptive rights issue. Neither of these authorities was used by the Company. The Directors are seeking approval from shareholders to renew these authorities at the AGM to be held on 6 May 2010, further details of which are set out in the accompanying circular to shareholders.

A further special resolution passed at the 2009 AGM granted authority to the Directors to allot equity securities (as defined in the Bye-Laws) in the Company for cash on (a) a non-pre-emptive basis pursuant to a rights issue or other offer to shareholders and (b) otherwise up to an aggregate nominal value of US$178,793 (being equal to 5 per cent of the issued share capital of the Company as at 26 March 2009). That authority was not used by the Company. The Directors are also seeking approval from shareholders to renew this authority at the 2010 AGM, further details of which are set out in the accompanying circular to shareholders.

Repurchase of shares
At the 2009 AGM, shareholders renewed the Company's authority to purchase a maximum of 35,758,615 Common Shares. During the year this authority was not used by the Company. The Company is seeking from shareholders a renewal of the Directors' authority to purchase the Company's shares at the 2010 AGM, further details of which are set out in the accompanying circular to shareholders.

Significant agreements
The Company and certain subsidiaries participate in a Letter of Credit/Revolving Loan Facility ('Facility') with a number of banks, further details of which are set out in Note 10 to the Consolidated Financial Statements. Under the terms of the Facility, upon a change of control at the option of the majority banks which are party to the Facility, all outstanding amounts become immediately due and payable and all liabilities of affected letters of credit shall be reduced to zero or otherwise secured by cash collateral.

Certain reinsurance contracts under which the Company's subsidiaries are reinsured may be subject to termination at the option of the counterparty in the event of a change of control.

Employee share schemes
Details of the Company's employee share plans can be found on page 74.

Under the terms of the trust deed governing the Company's employee benefit trust, the trustees are not allowed to vote in respect of any shares held in the trust.

Annual General Meeting
The notice of Annual General Meeting, to be held at noon on Thursday 6 May 2010 at the Company's offices at Cumberland House, 6th Floor, 1 Victoria Street, Hamilton, Bermuda HM 11, is contained in a separate circular to shareholders enclosed with this report.

Auditors
Resolutions are to be proposed at the Annual General Meeting to re-appoint PricewaterhouseCoopers as auditors to the Company and to authorise the Directors to fix the auditors' remuneration. PricewaterhouseCoopers was first appointed in 1999.

By Order of the Board

Daniel Primer
Company Secretary
10 February 2010

Corporate Governance Report

Overview, basis of reporting and the Combined Code

The Company is incorporated in Bermuda and as a result is not bound by the Combined Code on Corporate Governance. The Company does, however, aim to apply best practice in corporate governance and complies with all Bermuda statutory requirements and the Combined Code. The Company's auditors have reviewed the Company's compliance with the Combined Code to the extent required by the UK Financial Services Authority for review by auditors of UK-listed companies.

Board of Directors

The Board of Directors comprises a Non-Executive Chairman, two Executive Directors and eight Non-Executive Directors. There were several changes to Board composition during 2009. Michael Eisenson, a director affiliated with a shareholder, Charlesbank, resigned on 30 June. Christopher Stooke, an Executive Director, retired as a Director on 31 August. Benjamin Meuli, who succeeded Mr Stooke as Group Chief Financial Officer, joined the Board as an Executive Director on 30 June. Two new Non-Executive Directors, Robert Gowdy and Guy Beringer, joined the Board on 30 June and 8 December, respectively. Michael Hepher, Non-Executive Director, retired from the Board on 31 January 2010. There were no other changes to Board membership during 2009 and 2010 up to the date of this Report.

During 2009 there were no material changes to the Chairman's other commitments.

Independence of Directors

The Board considers all of the Non-Executive Directors – Guy Beringer, Alan Bossin, Michael Crall, Jean Claude Damerval, Kenneth Goldstein, Robert Gowdy, Michael Harper and Nicholas Lyons – to be independent within the meaning of the Combined Code. None of them has any executive or other role or relationship with the Company or management that would affect his objectivity, and all have proven to be independent in character and judgment. Mr Bossin is counsel at the Bermudian law firm Appleby, which acts as an advisor to the Company on Bermuda law, but the Board believes that the relationship between the Company and Appleby (including the level of fees) is not of sufficient significance to any of the Company, Appleby or Mr Bossin to compromise his independence. With seven independent directors for the first half of the year and eight for the second, the Board composition complied with the Combined Code during 2009.

The Company complies with the Combined Code other than in respect of the following:

- Until 30 June, one member of the Compensation Committee (Michael Eisenson) was not "independent" due to his affiliation with a shareholder. Since 30 June, all members of the Compensation Committee are independent, so membership is now compliant with the Code.
- Certain Directors' appointment letters, originally issued some years ago, do not specify a minimum time commitment. The affected individuals have been Directors for at least five years, and over that period each has demonstrably devoted sufficient time and attention to their responsibilities.

Board performance evaluation

The Board is committed to ongoing improvement in its procedures and performance, and during 2009 implemented a variety of measures to achieve this. The Board commissioned a formal independent third-party effectiveness review, continued implementing recommendations adopted from previous performance evaluations and reviewed on an ongoing basis the quality, content and frequency of information being provided to it by the Company. The external effectiveness review focused on Board input into Group strategy, risk management, dynamics between Non-Executive Directors and Group executives, and information provided to the Board, especially between meetings. Steps taken following the review included improving the quality and timeliness of information to support Board decisions on strategy, regular presentations to the Board by the Enterprise Risk Management team and improved reporting between meetings. In addition, throughout the year the Board heard regular presentations from various areas of the business, attended formal professional development seminars and held regular meetings of all Non-Executive Directors in the absence of the Executive Directors.

Other performance reviews undertaken during 2009 include:

- An external review of the effectiveness of the Audit, Compensation and Investment Committees;
- Review of the effectiveness of the Nominations Committee;
- Performance appraisals of individual Directors; and
- Review by the Non-Executive Directors of the Chairman's effectiveness.

The internal reviews were conducted through a combination of meetings and appraisal forms, and recommendations arising from these reviews were implemented during 2009.

For 2010, effectiveness reviews will be undertaken internally.

Board meetings
The Board held seven meetings in 2009. One Director missed two meetings (held on successive days) due to illness; in addition, Mr Eisenson, Mr Goldstein, Mr Hepher and Mr Stooke each missed one meeting. In each instance, the absent director had the opportunity to comment on the matters under consideration by the Board. In addition to these meetings, the Board held a two-day strategic planning session with senior management.

The Chairman met during the year with the Non-Executive Directors.

Responsibilities and procedures
The Board is responsible for the leadership, strategic direction, prudential control and long-term performance of the Company. It has adopted a schedule of matters reserved to the Board for decision, to which there were no changes during 2009. These include the adoption of strategic or business plans, major transactions, investment strategy, major treasury or financial decisions, significant borrowing, changes to capital structure, issuance of equity or debt securities, approval of public financial statements and the appointment of selected members of senior management.

The Board is responsible for ensuring the maintenance of proper accounting records which disclose with reasonable accuracy the financial position of the Company. It is required to ensure that the financial statements present a fair view for each financial period.

During 2009 the Board considered succession planning for senior executives and at the Board level.

The Board has delegated to the Chief Executive Officer and to the Group Executive Committee (comprising the Executive Directors and other senior executives) authority to execute Board strategy and to manage the Company on a day-to-day basis, including approval of financial commitments below the levels requiring Board approval.

The Board has delegated authority to the Nomination, Compensation and Audit Committees in accordance with governance best practice. The level of delegation is defined in terms of reference and described in the reports that follow. The Board has also delegated certain authority over management of the Company's investments to an Investment Committee of the Board.

Management regularly provides to the Board information necessary to enable the Board to perform its duties; that information is provided principally in standard monthly reports covering key performance indicators and Group Executive Committee deliberations, comprehensive meeting papers, discussions with executives, and the Board and Committee meetings. Further information is provided on an ad hoc basis as issues of interest arise. Directors are free to request from the Executive Directors and from other executives such information as they consider appropriate. The Board and its committees have unrestricted access to the Company's professional advisors and are authorised to take independent professional advice at the Company's expense. The Board is able to discuss the business with employees at all levels.

The Board is regularly updated on regulatory and compliance developments including Board governance matters. Additional briefing materials are available to any Director upon request.

The Board has adopted a formal division of responsibilities between the Chairman, who is responsible for running the Board and related matters such as Board induction and evaluation, and the Chief Executive, who is responsible for the day-to-day management of the business.

Directors are required to discuss any potential conflicts of interest with the Chairman.

Upon their appointments, new Directors receive a comprehensive induction programme covering amongst other things the Group's history and business, the competitive environment, business plans and strategy, finance, investor relations, governance and Directors' responsibilities, and corporate responsibility.

Relations with shareholders
The Company is committed to ongoing dialogue with its shareholders. Presentations to analysts and investors are made by senior management, including the Executive Directors, following the half-year and full-year results announcements and at other times during the year, including an Investor Day held in November 2009. The Executive Directors and other senior executives undertake an extensive programme of one-on-one investor meetings throughout the year.

With the assistance of its corporate brokers and investor relations advisors, the Company seeks feedback from investors following major presentations. This feedback is communicated to the Board. The Chairman and Non-Executive Directors are also available to meet major shareholders upon request.

Shareholders are encouraged to attend the 2010 Annual General Meeting.

Corporate Governance Report continued

Accountability and internal control

The Directors are responsible for the Company's systems of internal control and for taking reasonable steps to safeguard the assets of the Company and to prevent and detect reporting irregularities. For the year ended 31 December 2009, the Directors have reviewed the effectiveness of these systems, which are designed to provide reasonable, although not absolute, assurance against material avoidable loss or misstatement of financial information. These systems are also designed to manage rather than eliminate the risk of failure to achieve these objectives. Regular reports regarding internal controls are also made to the Board directly and/or through the Audit Committee.

During January 2010 a review of the effectiveness of the Company's internal controls and risk management systems during 2009 was conducted under the direction of the Audit Committee and the Board pursuant to the Turnbull Report and related guidance. It included a review of the documentation of internal control systems, including the extent to which those controls are risk-based and are embedded in the organisation. The results of this review were presented to the Audit Committee and Board in February 2010.

The Company has an ongoing process, as part of its Risk and Control Framework, for identifying, evaluating and managing significant risks (the risk management programme), and this has been in place throughout 2009 and up to the date of this report. The Board receives periodic reports from the Chief Risk Officer and/or the Audit Committee on the risk management programme.

The Chief Executives of each of the Company's underwriting platforms are responsible for directing the risk management programme within their operations. The Chief Risk Officer, the Group Executive Committee and other senior executives review and monitor the identification and assessment of significant risks and the relevant control and monitoring procedures. In addition, they monitor the Company's significant risks on an ongoing basis. Action is taken where the need for further risk mitigation is identified. Internal audits are conducted on an ongoing basis as part of a risk-based plan approved and monitored by the Audit Committee.

Going concern

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

Report from the Nomination Committee

The Nomination Committee is chaired by Sir Graham Hearne, Non-Executive Chairman. Other members of the Committee during 2009 were Michael Crall, Michael Harper and Michael Hepher. Mr Hepher left the Committee upon his retirement from the Board on 31 January 2010 and was replaced by Mr Lyons.

Terms of reference

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Company's website, include identifying potential nominees for election to the Board; advising the Board on succession, retirement and re-election of Directors; reviewing the Board's structure, size and composition; and participating in the Directors' appraisal process.

Meetings

The Nomination Committee met four times during 2009. On member missed one meeting due to illness.
Members also communicated as needed outside of the meeting.

Activities

The Nomination Committee focused on three areas during 2009:

- As described above, two Directors departed during the year and three new Directors joined. The Committee identified Robert Gowdy, who had for several years served as an independent director of the Group's US subsidiaries, as an individual whose extensive experience in the US property/casualty market would be very useful to the Board, especially in view of recent and planned growth in the Group's US operations. The Committee, assisted by an external recruitment consultant, also identified Guy Beringer. The Committee considered that his experience as Senior Partner at Allen & Overy was not only highly relevant but also would diversify the skills and experience of the Board as a whole. The Committee also recommended the appointment of Benjamin Meuli, the Group's new Chief Financial Officer, as an Executive Director.
- Five Directors – Sir Graham Hearne, Michael Crall, Jean Claude Damerval, Michael Harper and Michael Hepher – were due to retire by rotation at the 2009 AGM. The Committee appraised the performance of each and concluded that all five continued to be effective in and dedicated to their roles, and accordingly recommended them for re-election. Following the Committee's recommendation and the Board's approval, they were re-elected to the Board at the 2009 AGM.
- The Committee considered the membership of the Board committees in the light of the changes to the Board. The Committee recommended, and the Board agreed, to changes in the membership of the Audit, Compensation and Investment Committees.

Report from the Audit Committee

The Audit Committee was chaired during 2009 by Michael Hepher, a Non-Executive Director. He was succeeded in that role by Nicholas Lyons (also a Non-Executive Director) on 31 January 2010. The other members who served for the full year are Jean Claude Damerval, Kenneth Goldstein and Nicholas Lyons. Robert Gowdy joined the Committee on 5 August. The Chief Executive Officer, the Chief Financial Officer and other members of the Company's management attend meetings by invitation of the Committee. The Board is satisfied that throughout the year there has been at least one Committee member with recent and relevant financial experience.

Terms of reference

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Company's website, require it to monitor the integrity of the Company's financial statements and the systems and controls supporting them.

The Committee is also required to:

- Recommend to the Board the appointment, removal and remuneration of independent external auditors;
- Monitor and assess the effectiveness of the Company's systems of internal controls and risk management;
- Discuss major financial risk exposures with management, including risk assessment and risk management policies; and
- Monitor and review the effectiveness of the Company's Internal Audit function.

The Committee recommended the re-appointment of PricewaterhouseCoopers ("PwC"). PwC has been the Group's auditor since 1999. The Committee continues to be satisfied with PwC's performance, independence, audit partner rotation policy and cost. There are no contractual obligations restricting the Group's choice of external auditor.

The Committee is responsible for approving all appointments of PwC to provide non-audit services, subject to a *de minimis* threshold of $25,000. Such appointments are approved only if the Committee is satisfied that the independence and objectivity of the auditors will not be undermined by the nature or value of the non-audit work and that there are compelling reasons to use the external auditors rather than another service provider. The total paid to the external auditors in 2009 for audit services amounted to US$2,867,043 (2008: $3,100,630); the total paid in 2009 for non-audit services amounted to US$383,105 (2008: $11,140). The relatively high value of the non-audit services is attributable to two assignments. The first was a review of the effectiveness of the Group's Finance function; the Committee considered that PwC was uniquely positioned to undertake that review. The second was the provision of planning and programme management advice for the Group's Enterprise Risk Management initiative, which the Committee considered was justified because of the unique suitability of the individuals involved and advantageous pricing. PwC also undertook several assignments, considered to be *de minimis* individually and in the aggregate, relating to online accounting services and subscriptions, an industry compensation review, a review of the Catlin US 401(k) plan and assistance with the Catlin US intra-Group pooling arrangement.

Meetings

The Committee met four times during 2009. One member missed one meeting due to illness, and Mr Goldstein missed one meeting with the prior agreement of the Chairman but had the opportunity to comment on the matters under consideration by the Committee.

Activities

Financial reporting

- The Committee reviewed the 2008 year-end and 2009 half-year financial results. It considered updates on accounting policy matters.
- It met with external and company actuaries to discuss technical loss reserves and areas of greatest reserving uncertainty. Following full meeting reports, the Committee met privately with the external actuaries without management present.
- It reviewed proposed public financial statements including expanded public reporting on loss development triangles and extreme threat analysis.
- The Committee met with members of the Catlin Finance team to discuss progress on improvements in the financial reporting systems.

Corporate Governance Report continued

External audit

- The Committee met with the external auditors regarding their 2008 full-year audit, 2009 half-year review and the plan for the 2009 year-end audit. Following the full meeting reports, the Committee met privately with the external auditors without management present.
- The plan for the annual external audit work was approved, along with related fees.
- The Committee assessed the effectiveness of the external auditors. It discussed the auditors' independence and rotation plans.

Internal audit and risk

- The Committee received regular reports on the findings from the programme of internal audits. Following the full meeting reports, the Committee met with the Head of Internal Audit without management present.
- The 2010 internal audit programme was reviewed and agreed.
- Key financial risks and other risks were identified and discussed with management. The Committee considered special reports on risks related to the use of intra-Group reinsurance to support strategic capital management and the risks and controls around disaster recovery plans and counterparty risk.
- The Committee directed and reviewed the assessment of effectiveness of internal controls and risk management systems. In addition, the Committee reviewed an external report on the effectiveness of the Internal Audit function and noted the recommendations.
- The Committee reviewed reports on regulatory compliance. Following the full meeting reports, the Committee met with the Group Compliance Officer without management present.

Other

- The Committee received regular reports from the General Counsel on legal matters.
- The Committee reviewed Directors' expenses.
- The Committee reviewed its terms of reference and conducted an assessment of how it had discharged its responsibilities. In addition, the Committee commissioned a review of its effectiveness and noted the recommendations.
- The Committee has undertaken an ongoing training and education programme to keep up-to-date with accounting, regulatory and other relevant developments.

By Order of the Board

Daniel Primer
Company Secretary
10 February 2010

Directors' Remuneration Report

This report to shareholders describes the Company's remuneration policy and the remuneration of its Directors for the year ended 31 December 2009. The report has been prepared in accordance with the Combined Code, Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the UK Listing Authority. The sections of this report entitled 'Directors' Emoluments' and 'Options Over Shares' have been audited by PricewaterhouseCoopers. The remainder of the report is unaudited.

This report provides the most up-to-date information available on Directors' remuneration. Bonuses are disclosed on an accrued, rather than paid, basis. Accordingly, bonuses relating to performance during 2009 are reported here, although they will be paid early in 2010. Bonuses paid during 2009 but relating to 2008 performance were disclosed in last year's report and are not repeated here.

Compensation Committee

There were two changes to the membership of the Compensation Committee during 2009. Michael Eisenson left the Committee on 30 June 2009, when he retired from the Board. Guy Beringer was appointed to the Committee on 8 December 2009. Michael Harper, Senior Independent Director, was Chairman throughout the year. Jean Claude Damerval and Michael Crall, both Non-Executive Directors, were members throughout 2009. Following Mr Eisenson's departure, all members were independent within the meaning of the Combined Code. (Mr Eisenson was not deemed independent due to his affiliation with a significant shareholder.)

The Committee met five times in 2009; Mr Eisenson missed one meeting.

Terms of reference

There was no change to the Committee's terms of reference during 2009. Its role and responsibilities include assisting the Board in setting policy for the remuneration of the Chairman, the Executive Directors, other senior executives and all Group employees. Within that policy, the Committee establishes remuneration packages for the Chairman, the Executive Directors and other senior executives. It is also responsible for agreeing aggregate salary increases for all Group employees, agreeing bonus schemes, establishing performance targets and individual awards under share incentive plans, and recommending to the Board any major changes to employee benefit structures throughout the Group. The Committee's terms of reference are available on request from the Company Secretary and appear on the Company's website.

Use of advisors

The Committee uses consultants when it considers that outside advice would be helpful in discharging its responsibilities. Deloitte LLP is the principal outside advisor and during 2009 assisted the Committee in areas including advice on developments in compensation best practice, share scheme adjustments in connection with the Group's Rights Issue and in respect of various ad hoc issues arising during the year. Deloitte also provided a non-material level of services to other Group companies worldwide, including accounting, actuarial and tax. The Committee believes that the objectivity of the advice received from Deloitte is not affected by the other services it provides to the Group.

The Committee has also retained Hewitt New Bridge Street Consultants from time to time to provide benchmarking data.

The Committee receives information and assistance from various members of management, principally the Head of Strategic Human Resources. No executives participate in Committee deliberations relating to their own remuneration. The Company Secretary or Head of Strategic Human Resources acts as secretary to the Committee.

Directors' Remuneration Report continued

Policy on remuneration of Executive Directors and senior executives

As in previous years, the Company's policy is to offer remuneration packages that attract, retain and motivate staff of suitable calibre and experience. Remuneration, particularly with respect to Executive Directors and other senior executives, is designed to create incentives to meet the financial and strategic objectives set by the Board for the Company, primarily through variable bonus and share plan components. This policy aims to align executive rewards with the creation of shareholder value over time rather than with short-term or revenue-driven measures. Accordingly, variable elements of compensation depend on the financial performance of the business and are aligned with the Group's key performance indicators, in particular return on equity, profit before tax and growth in net asset value per share measured over periods of one to four years. In addition to those factors, the Committee has authority to consider all aspects of Company performance – including its performance on environmental, social and governance issues – in establishing remuneration.

Throughout 2009, the Committee reviewed the Group's policy on remuneration and the components of the executive remuneration package in light of emerging best practice exemplified by the FSA Remuneration Code and various other pronouncements by regulators, shareholder advocacy groups and governance commentators (some of which are not by their terms applicable to the Group). The review has focused on issues such as whether incentives are compatible with risk policies, the extent to which performance conditions attaching to variable compensation are challenging and consistent with the Group's objectives and ensuring that executives are not 'rewarded for failure'. The Committee will continue to review these issues, but it believes that the Group's incentive schemes, including those applicable to Executive Directors, are practically and philosophically consistent with emerging best practice. Further detail is provided below in the commentary relating to specific aspects of Group compensation, but in summary the Committee believes that:

- the overall compensation structure aligns executives with shareholders;
- the incentives do not encourage risk-taking that is excessive or beyond the risk appetite defined by the Board and reflected in the annual business plan;
- performance conditions on variable compensation are challenging, aligned to corporate objects and do not reward failure;
- there is an appropriate balance between fixed and variable compensation and between short-term and long-term incentives;
- pay structures across the Group are reasonably proportionate; and
- compensation policy for 2010 fairly reflects the challenging economic and operating environment.

Basic salary

Basic salaries and related benefits are determined having regard to employees' responsibilities, contributions, qualifications and the distribution of salary across all employees in the Group; they are set at a level sufficient so that employees are not unduly dependent on bonuses. Basic salaries are intended to be competitive with those offered by similar organisations in the jurisdictions where the Company operates. Salaries are reviewed annually before year-end, and any increases are based upon changes in the scope of employee responsibilities, achievement of individual performance targets, relative compensation levels throughout the Company, inflation, market trends and such other considerations as the Committee considers relevant. For comparative purposes, the Company keeps competitors' remuneration structures under review and undertakes regular compensation and benefits surveys, but uses such comparisons cautiously to avoid unwarranted increases.

In reviewing basic salary for 2010, the Committee considered the performance of the Executive Directors against their personal goals, the overall performance of the Company, the trading and economic environment, and compensation levels across the Group. The Committee was also mindful of the fact that Executive Directors had received no salary increase in either 2008 or 2009. For 2010, Mr Catlin received a salary increase of 2.46%; the other Executive Director, Mr Meuli, did not receive an increase due to the fact that he joined the Company in September 2009.

Bonus arrangements

The Group operates a single bonus plan ('Bonus Plan'). The Bonus Plan is non-pensionable and all Group employees, including the Executive Directors, are eligible to participate. The bonuses relating to the 2009 financial year, payable early in 2010, are reported here. Bonuses paid in 2009 but relating to the 2008 financial year were disclosed in last year's report.

The Bonus Plan is designed to create alignment between shareholders and staff by encouraging achievement of business plan objectives by way of challenging but achievable targets and rewarding superior individual performance without encouraging excessive risk-taking. The bonus pool comprises two elements. The first is a profit-related fund, the amount of which depends on return on equity and profits before tax for each financial year. As in prior years, for 2009 no profit-related element is payable unless return on equity is at least 5 per cent, at which level a percentage of profits before tax is payable. The percentage payable starts at zero and rises to a maximum (both in percentage and absolute terms) of 9 per cent of profits before tax at a 25 per cent return on equity. The threshold requirement of a 5 per cent return on equity, combined with the shape of the payment curve, ensures that the profit-related bonus pool is risk-adjusted and reflects the cost of capital. The structure is intended to create greater incentives for superior performance, particularly for exceeding a 20 per cent return on equity. However, because the overall pool is capped at a level of return on equity consistent with the Group's risk appetite as reflected in the annual business plan, the Committee believes that it has struck a reasonable balance between encouraging personal performance and not rewarding excessive risk. The second element of the pool is related to personal performance and is in the aggregate equal to approximately 10 per cent of basic payroll.

The Committee retains discretion over all elements of the Bonus Plan and may make such adjustments to the formula that it may consider to be in the interests of the Company. No adjustments were made during 2009, although the Committee believes that the targets were more difficult to achieve in 2009 due to the extremely low interest rate environment. The Committee will continue to review the suitability of the Bonus Plan and individual awards in light of the business environment and the Company's objectives for each year.

The value of the bonus pool available for distribution to all employees is driven largely by Group financial performance. However, individual allocations, including those to Executive Directors, are at the discretion of the Committee and are based upon overall individual performance and not merely financial results; the Committee considers all aspects of Company performance – including its performance on environmental, social and governance issues – in establishing bonuses payable to Executive Directors. There is no formal cap on individual awards, but the total pool is capped. The Committee is responsible for ensuring that bonus awards to the Executive Directors are not excessive, reflect the performance of the business and the recipients, and are proportionate to the bonuses paid to employees across the Group. Bonuses are paid in cash without deferral; the Committee believes that executive participation in long-term share incentive schemes, which is of potentially higher value, together with shareholding guidelines applicable to senior executives creates effective long-term accountability.

The total bonus pool for 2009 amounted to US$67.574 million, based upon application of the formulae referred to above. The total bonus pool is equal to 46 per cent of the Group's wage roll. The bonuses payable to the Executive Directors comprise 3.3 per cent of the total bonus pool. Mr Catlin will receive a bonus of US$1,774,500 and Mr Meuli will receive of bonus of US$415,312.

Share plans

The Company seeks further to align interests between Executive Directors, employees and shareholders by facilitating share ownership. This is achieved through four active share incentive plans:

- The Performance Share Plan ('PSP'), adopted by the Company in 2004. Awards are made under the PSP annually; awards made during 2009 and planned for 2010 are set forth below.
- A UK Inland Revenue-approved save-as-you-earn plan ('SAYE'), open to all UK employees.
- A US Internal Revenue Service-approved employee share purchase plan ('ESPP'), open to all US employees.
- A plan similar to the SAYE open to employees in various other Group offices ('ROW Plan').

During 2009, awards to Executive Directors were made only under the PSP. Non-Executive Directors do not participate in any of the plans.

Directors' Remuneration Report continued

There are two inactive share plans in existence: a Share Option Plan adopted contemporaneously with the PSP, under which no awards have ever been or are currently planned to be made, and the Long Term Incentive Plan ('LTIP'), adopted in 2002. The last LTIP awards were made prior to the Company's initial public offering in 2004, and no further awards will be made.

Executive Directors are also encouraged to develop and maintain a meaningful shareholding (equal in value to 100 per cent of base salary over a period of three years and 200 per cent over five years from December 2007). The stake can be built over time through the share incentive plans referred to above. The Committee considers that this policy enhances the long-term alignment of interests between shareholders and the Executive Directors; both Executive Directors comply as of the date of this report.

Performance Share Plan

The PSP was adopted by the Company in 2004 and is designed to reward participants for delivering growth in shareholder value. PSP participation is spread broadly across the Group, with more than 500 participants in 2009 and expected for 2010. The PSP provides for conditional awards of shares (or nil-cost options), vesting of which depends on achievement of performance conditions calibrated to the creation of shareholder value. The performance conditions require that growth in net asset value plus dividends declared per share during the Relevant Period exceed US dollar Libor plus 5 per cent per annum. At that level, 30 per cent of the award would vest, increasing on a straight-line basis to 100 per cent vesting at US dollar Libor plus 10 per cent. For awards made during 2009, the Relevant Period is 2009 to 2011 (inclusive) as to half of the award, and 2009 to 2012 for the balance. The Relevant Periods for awards made during 2010 will be 2010 to 2012/2013. In addition, upon vesting participants receive shares purchased in the market with notional dividends accrued on the underlying PSP award ('Dividend Shares'), but only to the extent that the underlying awards vest. Subject to limited exceptions, individual awards normally vest only if the participant is still employed by the Group upon vesting.

The PSP is limited such that no award may be granted if the total number of shares to be issued to satisfy awards under the PSP and other share plans during the period of ten years prior to such grant (but excluding any awards granted prior to IPO) would exceed 10 per cent of the issued ordinary share capital of the Company on the date of grant. The Company also has discretion to and expects to satisfy awards under the PSP (or other subsisting share plans) with shares purchased in the market by the Catlin Employee Benefit Trust ('EBT'). The Committee intends that the EBT will at no time hold shares exceeding 5 per cent of the outstanding share capital. Subject to Committee discretion, individual annual awards will not ordinarily exceed twice the participant's basic salary.

The Committee during 2009 reviewed the PSP in light of actual performance and best practice and concluded that it remained effective to align employees with shareholders and for retention. The performance condition (which has not been changed) remains appropriate, and the three- and four-year measurement periods create a strong long-term incentive.

The Committee made two adjustments to the PSP during 2009 to prevent any fortuitous benefit or detriment to participants arising from the Rights Issue. First, the number of shares subject to PSP awards was increased pursuant to a market-standard formula to reflect the dilutive impact of the Rights Issue. Secondly, the net asset value per share used in the performance condition has been adjusted so that neither the proceeds of, nor the new shares issued in, the Rights Issue will affect achievement of the performance condition. Both changes have the effect of leaving PSP participants economically neutral and are in accord with market best practice.

The Committee also adopted an amendment to the PSP rules affecting departing employees. In 2007, the rules were amended so that awards would no longer vest automatically at retirement. As amended, awards could at the discretion of the Committee remain in place and vest at the normal time subject to normal vesting conditions. The purpose of the change was to encourage senior employees approaching retirement age to continue working towards the Company's long-term objectives. It also allowed the Group to impose non-compete and non-poaching restrictions.

In August 2009 the Committee exercised its authority under the PSP Rules to bring the 'Good Leaver' provisions into line with the retirement provisions. A Good Leaver is a PSP participant who ceases to hold employment by reason of, for example, death, ill-health, retirement or any other reason the Committee in its discretion determines. Good Leavers would not include participants who are terminated for cause or who leave to join a competitor. As a result, if an individual is a Good Leaver, the Committee will now have the discretion to allow the awards to remain in place and vest at the normal time, subject to the normal performance conditions. The Committee may also take into account how much of the performance period had elapsed at the date of termination. This change was notified to major shareholders in January 2010.

The Committee considers that this amendment is in the interests of Catlin and its shareholders because it obviates the need for the Committee to forecast the ultimate out-turn of the awards so as to achieve a fair result, and Good Leavers will not be treated more advantageously than current employees. The change is consistent with recent ABI guidance.

Directors' PSP participation during 2009 and 2010
Annual awards under the PSP were made to the Executive Directors during 2009 and will be made during 2010. Stephen Catlin received an award of nil-cost options over 246,385 shares in February 2009 and will on 11 February 2010 receive an award of options over 396,444 shares. Christopher Stooke received an award of nil-cost options over 151,898 shares in February 2009. Benjamin Meuli received an award of nil-cost options over 213,270 shares on 1 September 2009 and will on 11 February 2010 receive an award of options over 320,978 shares. The value of the awards (subject to vesting and not including potential Dividend Shares) was approximately £1,022,000 and £1,332,000 for Mr Catlin and £674,000 and £1,078,000 for Mr Meuli for 2009 and 2010, respectively. The value of Mr Stooke's award was £630,000. The total PSP awards granted to Executive Directors, expressed as a percentage of total PSP awards to all participating employees, was approximately 8 per cent for 2009 and 8 per cent for 2010.

As reported last year, two tranches of PSP awards were eligible to vest during 2009: the second half of awards made in 2005 and the first half of awards made in 2006. In the event, 32 per cent of the 2005 awards vested and the 2006 awards vested in full. In March 2010, one-half of the PSP awards made in each of 2006 and 2007 will be eligible for vesting. Based upon the extent to which the performance conditions were achieved, the 2006 award will vest in full and the 2007 award will vest as to 58 per cent. Executive Directors' awards vesting in March 2010 are as follows:

	Vested 2006 award	Vested 2006 dividend shares	Vested 2007 award	Vested 2007 dividend shares
Stephen Catlin	113,431	27,548	63,801	12,897
Benjamin Meuli	–	–	–	–

LTIP
The LTIP was adopted in 2002 in a form agreed between the Company and its shareholders. Subsisting awards under the LTIP comprise options to purchase shares at $4.37 per share and at £3.06 per share, and all outstanding options have vested. The exercise prices and number of shares under option were adjusted for the Rights Issue in accordance with market-standard formulae to avoid unfair enhancement or dilution of the awards. No options have been issued under the LTIP since the Company's initial public offering and listing on the London Stock Exchange in 2004, and no further awards will be made. Details of outstanding awards to Directors are set forth below.

SAYE
The SAYE was adopted at the 2008 AGM and is an 'all-employee' plan on standard HMRC-approved terms. Under the SAYE, eligible employees are able to apply for options over the Company's Common Shares which vest in three years under a savings contract of equal duration. The option exercise price for the 2009 plan is at a discount of 20 per cent from the share price at the time employees were invited to participate in the Scheme. It is anticipated that the SAYE will be offered again in 2010 on substantially identical terms.

ESPP
The ESPP was adopted at the 2008 AGM and is an 'all-employee' plan on standard US Internal Revenue Service terms. Under the ESPP, eligible employees are able to apply for options over the Company's Common Shares which become exercisable at the end of a 12-month savings period. Participants will fund the exercise of their options by way of salary deductions throughout the period. The option exercise price for the 2009 plan is a discount of 15 per cent from the share price at the time employees were invited to participate in the scheme. It is anticipated that the ESPP will be offered again in 2010 on substantially identical terms.

ROW Plan
The ROW Plan, which is an extension of the SAYE, was authorised at the 2008 AGM but was first implemented during 2009. Under the ROW Plan, eligible employees based in the Group's offices in Bermuda, Canada, Germany and Singapore are eligible to apply for options over the Company's Common Shares which vest in three years under a savings contract of equal duration. The option exercise price for the 2009 plan is at a discount of 20 per cent from the share price at the time employees were invited to participate in the Scheme. It is anticipated that the ROW Plan will be offered again in the same locations in 2010 on substantially identical terms and possibly extended to other locations.

Directors' Remuneration Report continued

No Directors participate in the SAYE, ESPP or ROW Plans.

The SAYE and ESPP were adjusted pursuant to standard anti-dilution provisions following the Rights Issue during 2009.

Other benefits

Permanent health insurance, private medical insurance, personal accident/travel insurance and life insurance are purchased for the benefit of the Executive Directors. In addition, Mr Catlin, along with other executives, has use of a Bermuda residence leased by the Group.

Service contracts

Stephen Catlin is employed as Chief Executive Officer pursuant to a contract dated 5 April 2006. Christopher Stooke was until 31 October 2009 employed as Chief Financial Officer pursuant to contracts dated 30 October 2002 and 18 January 2007. Mr Meuli is employed as Chief Financial Officer pursuant to a contract with effect from 1 September 2009. The contracts require 12 months' notice of termination of employment (in Mr Meuli's case, such notice is not to be given sooner than 12 months from the commencement of his employment) and do not provide for additional compensation to be paid in the event of termination. All Executive Directors serve as such subject to the Bye-Laws and to re-election from time to time at the Company's AGMs. No additional compensation is payable to Executive Directors for serving as a Director or upon ceasing to serve as a Director.

External appointments

At the discretion of the Board, an Executive Director is permitted to accept directorships or similar positions in non-competing ventures to the extent that they do not interfere or conflict with the Director's obligations to the Company. In normal circumstances, the Director is permitted to retain remuneration received in that capacity.

During the reporting period and up to March 2010, no Executive Director served as a director for remuneration with any other entity.

Non-Executive Directors

Non-Executive Directors serve pursuant to letters of appointment, details of which are as follows:

Director	Date of current appointment letter	Unexpired term
Guy Beringer	11 December 2009	Until 2010 AGM
Alan Bossin	29 March 2004	Until 2011 AGM
Michael Crall	20 September 2004	Until 2012 AGM
Jean Claude Damerval	6 July 2005	Until 2012 AGM
Michael Eisenson		Retired 30 June 2009
Kenneth Goldstein	7 June 2007	Until 2010 AGM
Robert Gowdy	25 August 2009	Until 2010 AGM
Michael Harper	7 July 2005	Until 2012 AGM
Sir Graham Hearne	13 January 2005	Until 2012 AGM
Michael Hepher		Retired 31 January 2010
Nicholas Lyons	11 August 2008	Until 2012 AGM

The 'unexpired term' shown above reflects the mandatory 'retirement by rotation' mechanics included in the Bye-Laws. In addition, Non-Executive Directors' appointments are subject to 90 days' notice of termination. Sir Graham Hearne and Michael Crall are entitled, subject to re-election at AGM, to nine months' compensation (in addition to the 90-day notice period) if their appointments are terminated by the Company without cause, with a maximum liability to the Company of US$234,000 and US$76,050 respectively. Neither of these Directors has any executive role with the Company.

The appointment letters and service agreements are available for inspection at the Company's registered office and at the offices of Catlin Holdings Limited at 3 Minster Court, Mincing Lane, London EC3R 7DD during normal office hours.

Directors' emoluments

The aggregate emoluments paid to or receivable by Directors for services to the Company and its subsidiary undertakings for the 2009 financial year, together with comparatives for the previous year, are as follows:

US$	Salary	Fees	Bonus[1]	Benefits	Total 2009	Total 2008
Guy Beringer	–	4,875	–	–	**4,875**	–
Alan Bossin	–	81,150	–	–	**81,150**	86,960
Stephen Catlin	1,146,631[2]	–	1,774,500	231,343	**3,152,474**	1,631,082
Michael Crall	–	98,104	–	–	**98,104**	107,593
Jean Claude Damerval	–	85,427	–	–	**85,427**	90,818
Michael Eisenson[3]	–	39,000	–	–	**39,000**	86,960
Kenneth Goldstein	–	86,254	–	–	**86,254**	90,819
Robert Gowdy	–	45,831	–	–	**45,831**	–
Michael Harper	–	127,950	–	–	**127,950**	142,460
Sir Graham Hearne	–	302,700	–	–	**302,700**	334,861
Michael Hepher	–	112,350	–	–	**112,350**	123,960
Nicholas Lyons	–	85,050	–	–	**85,050**	38,957
Benjamin Meuli	609,540[4]	–	415,132	6,407	**1,031,079**	–
Christopher Stooke[5]	520,000	–	–	14,320	**534,320**	829,284

[1]Bonuses were earned during 2009 but will be paid early in 2010
[2]Included within Mr Catlin's salary is a cash supplement of US$132,631, equal to 13.08 per cent of his base salary, paid in lieu of Company pension contributions.
[3]Michael Eisenson resigned on 30 June 2009. Fees payable in respect of Mr Eisenson were paid to Charlesbank Capital Partners LLP.
[4]Included in Mr Meuli's salary are consultancy fees of US$294,400 paid to him between 1 May 2009 and 31 August 2009. Also included within Mr Meuli's salary is US$39,140 which is a cash supplement, equal to 14.2 per cent of his base salary, paid in lieu of Company pension contributions.
[5]Christopher Stooke resigned as a Director on 31 August 2009 and his employment with the Company terminated on 31 October 2009. In connection with the termination of his employment, Mr Stooke received US$1,385,977 as compensation for loss of office. The Compensation Committee considered that amount to be fair compensation and a significant mitigation of the Group's potential financial exposure in view of the quantum of accrued bonus and contractual entitlements.

The Board determines the fees paid to the Chairman and Non-Executive Directors by reference to market rates and the time, skills and commitment required. The Chairman and Non-Executive Directors do not participate in pension, bonus or share plans.

The Board reviews the Chairman and Non-Executive Directors' fees annually. Having considered market comparables, the quality of the Board's contribution and pay structures across the Group, the fees payable to Independent and Non-Executive Directors were increased with effect 5 August 2009. The Chairman's fee increased from US$296,400 to US$312,000, and the Senior Independent Director's fee increased from US$124,800 to US$132,600, which includes the fee of US$15,600 payable for serving as Chairman of the Compensation Committee. The basic fee for Non-Executive Directors increased from US$78,000 to US$85,800 per annum. In addition, a fee is payable to the Chairman of the Audit Committee (during 2009, Mr Hepher; from 1 February 2010, Mr Lyons) of US$31,200, and the other members of the Audit Committee receive a further fee of $3,900. The Chairman of the Investment Committee (Mr Crall) receives an additional fee of US$15,600.

Directors' fees are denominated in sterling but are reported here in US dollars.

Pensions

Following changes in UK pension legislation, the Company on 5 April 2006 ceased contributing to Mr Catlin's pension. Instead, the Company now pays a cash supplement amounting to 13.08 per cent of base salary per annum. This payment is at the same net cost to the Company as the former pension arrangement. Mr Meuli is entitled to an employer's pension contribution amounting to 15 per cent of his base salary per annum; the total amount paid in 2009 was US$41,399. Of the 15 per cent employer's contribution provided to Mr Meuli, 14.2 per cent is paid to Mr Meuli as a cash supplement and the balance is paid to a Swiss pension plan. Mr Stooke participated in the Company's money purchase scheme and was entitled to a contribution paid by the Company equal to 15 per cent of his base salary; the total amount paid in 2009 was US$93,600 (2008: US$111,000).

Directors' Remuneration Report continued

Options over shares

The closing price for the Company's shares on 31 December 2009 was 340 pence, and the range during the year was 282.75 pence to 448.50 pence. The closing price for shares on 10 February 2010 was 325 pence.

The table below shows options outstanding under the LTIP at year end. All of those awards were granted during prior financial years.

	Number of shares subject to option at 1 January 2009	Number of shares subject to option at 31 December 2009[1]	Exercise price[1]	Exercise period From	Exercise period To
Stephen Catlin	2,568,256	2,940,368	$4.37	Now	4 July 2012
Christopher Stooke	128,412	147,016	$4.37	Now	30 April 2010
	64,206	73,506	£3.06	Now	30 April 2010

[1]The awards were adjusted following the Rights Issue in March 2009. The number of options under award was increased by the ratio of 1:1.14489 and the option price decreased by the ratio of 1:0.87345.

The table below shows awards made during 2009 under the PSP:

	Award date	Number of shares subject to option at 1 January 2009	Awarded during 2009 (number of shares subject to option)	Number of shares subject to option at 31 December 2009	Number of options exercised during 2009	Vesting date
Stephen Catlin	12 February 2009	698,632	282,598[1]	893,795[2]	137,502[3]	Up to 222,868 in March 2010 Up to 248,883 in March 2011 Up to 280,746 in February/ March 2012 Up to 141,298 in February 2013
Benjamin Meuli	1 September 2009	–	213,270[4]	213,270	–	Up to 106,635 in September 2012 Up to 106,635 in September 2013
Christopher Stooke	12 February 2009	455,185	173,906	–	377,798[5]	

[1]The price of the Company's shares on 12 February 2009 was 415.50 pence.
[2]The awards shown reflect adjustment following the rights issue in March 2009 by the ratio of 1:1.14489.
[3]The Company's share price upon exercise of 124,741 options was 300 pence per share and upon exercise of 12,761 options was 297.25 pence. In addition, Mr Catlin received 30,300 Dividend Shares upon the exercise of his options.
[4]The price of the Company's shares on 1 September 2009 was 333.3 pence.
[5]Upon termination of Mr Stooke's employment, his outstanding but unvested PSP awards vested in part based upon projected achievement of the performance condition as determined by the Compensation Committee in accordance with the PSP rules. The Company's share price upon the exercise of 97,609 options was 320.71 pence per share and upon exercise of 280,189 options was 311.5 pence. In addition, Mr Stooke received 40,067 Dividend Shares in accordance with the PSP rules.

Subject to vesting of the underlying PSP awards, as at 31 December 2009 the Executive Directors have beneficial interests in the Dividend Shares held by the trustees of the Catlin Group Employee Benefit Trust in up to the following number of shares:

	Number of common shares
Stephen Catlin	135,285

Performance graph

The graph below shows the total shareholder return for the Company's common shares from 1 January 2005 to 31 December 2009 compared with that of the FTSE 350, which the Board considers to be an appropriate comparator group. Total shareholder return comprises changes in share price plus dividends paid.

The Directors' Remuneration Report was approved by the Board of Directors on 10 February 2010 and was signed on its behalf by:

Daniel Primer
Company Secretary

Report of the Independent Auditors

To the Board of Directors and Stockholders of Catlin Group Limited

In our opinion, the accompanying Consolidated Balance Sheets and the related Consolidated Statements of Operations, Consolidated Statements of Changes in Stockholders' Equity, Consolidated Statements of Cash Flows and Notes to the Financial Statements present fairly, in all material respects, the financial position of Catlin Group Limited and its subsidiaries at 31 December 2009 and 31 December 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers
Bermuda
10 February 2010

Consolidated Balance Sheets

As at 31 December 2009 and 2008 (US dollars in millions)

	2009	2008
Assets		
Investments		
Fixed maturities, at fair value	**$3,867**	$2,708
Short-term investments, at fair value	**796**	69
Investments in funds, at fair value	**530**	801
Total investments	**5,193**	3,578
Cash and cash equivalents	**2,500**	2,355
Securities lending collateral	**15**	33
Accrued investment income	**32**	31
Premiums and other receivables	**1,133**	1,080
Reinsurance recoverable	**1,441**	1,226
Reinsurers' share of unearned premiums	**213**	302
Deferred policy acquisition costs	**292**	247
Intangible assets and goodwill	**718**	651
Catastrophe swaps, at fair value	**1**	7
Other assets	**144**	149
Total assets	**$11,682**	**$9,659**
Liabilities and Stockholders' Equity		
Liabilities:		
Reserves for losses and loss expenses	**$5,392**	$4,606
Unearned premiums	**1,724**	1,536
Reinsurance payable	**653**	476
Accounts payable and other liabilities	**289**	248
Subordinated debt	**97**	98
Foreign exchange derivatives, at fair value	**–**	17
Securities lending payable	**15**	33
Deferred tax liability (net)	**234**	176
Total liabilities	**$8,404**	**$7,190**
Stockholders' equity:		
Common stock	**$4**	$3
Preferred stock	**590**	590
Additional paid-in capital	**1,938**	1,624
Treasury stock	**(62)**	(55)
Accumulated other comprehensive loss	**(189)**	(301)
Retained earnings	**997**	608
Total stockholders' equity	**3,278**	2,469
Total liabilities and stockholders' equity	**$11,682**	**$9,659**

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

Approved by the Board of Directors on 10 February 2010.

Stephen Catlin
Director

Benjamin Meuli
Director

Consolidated Statements of Operations

For the years ended 31 December 2009 and 2008 (US dollars in millions, except per share amounts)

	2009	2008
Revenues		
Gross premiums written	**$3,715**	$3,437
Reinsurance premiums ceded	**(547)**	(826)
Net premiums written	**3,168**	2,611
Change in net unearned premiums	**(250)**	(15)
Net premiums earned	**2,918**	2,596
Net investment return	**414**	(91)
Change in fair value of catastrophe swaps	**(31)**	(13)
Net realised gains/(losses) on foreign currency exchange	**30**	(21)
Other income	**4**	15
Total revenues	**3,335**	2,486
Expenses		
Losses and loss expenses	**1,681**	1,632
Policy acquisition costs	**586**	510
Administrative and other expenses	**449**	339
Financing costs	**16**	18
Total expenses	**2,732**	2,499
Net income/(loss) before income tax	**603**	(13)
Income tax (expense)/benefit	**(50)**	10
Net income/(loss)	**553**	(3)
Preferred stock dividend	**(44)**	(44)
Net income/(loss) to common stockholders	**$509**	**$(47)**
Earnings per common share		
Basic	$1.52	$(0.16)
Diluted	$1.47	$(0.16)

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

Consolidated Statements in Changes in Stockholders’ Equity

For the years ended 31 December 2009 and 2008 (US dollars in millions)

	Common stock	Preferred stock	Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Retained earnings	Total stockholders’ equity
Balance 1 January 2008	**$3**	**$590**	**$1,623**	**$(6)**	**$38**	**$769**	**$3,017**
Comprehensive income:							
Cumulative effect of adoption of the fair value option	–	–	–	–	(14)	14	–
Net loss to common stockholders	–	–	–	–	–	(47)	(47)
Other comprehensive loss	–	–	–	–	(325)	–	(325)
Total comprehensive loss	–	–	–	–	(339)	(33)	(372)
Stock compensation benefit	–	–	(2)	–	–	–	(2)
Dividends	–	–	–	–	–	(124)	(124)
Deferred compensation obligation	–	–	4	–	–	(4)	–
Treasury stock purchased	–	–	–	(50)	–	–	(50)
Distribution of treasury stock held by Employee Benefit Trust	–	–	(1)	1	–	–	–
Balance 31 December 2008	**$3**	**$590**	**$1,624**	**$(55)**	**$(301)**	**$608**	**$2,469**
Comprehensive income:							
Net income to common stockholders	–	–	–	–	–	509	509
Other comprehensive income	–	–	–	–	112	–	112
Total comprehensive income	–	–	–	–	112	509	621
Rights Issue	1	–	288	–	–	–	289
Stock compensation expense	–	–	22	–	–	–	22
Stock options exercised	–	–	(1)	1	–	–	-
Dividends	–	–	–	–	–	(115)	(115)
Deferred compensation obligation	–	–	5	–	–	(5)	-
Treasury stock purchased	–	–	–	(8)	–	–	(8)
Balance 31 December 2009	**$4**	**$590**	**$1,938**	**$(62)**	**$(189)**	**$997**	**$3,278**

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

Consolidated Statements of Cash Flows

For the years ended 31 December 2009 and 2008 (US dollars in millions)

	2009	2008
Cash flows provided by/(used in) operating activities		
Net income/(loss)	**$553**	$(3)
Adjustments to reconcile net income/(loss) to net cash provided by operations:		
Amortisation and depreciation	**17**	22
Amortisation of net discounts of fixed maturities	**(10)**	(4)
Net (gains)/losses on investments	**(232)**	324
Cessation of Syndicate 2020	**112**	–
Changes in operating assets and liabilities		
Reserves for losses and loss expenses	**36**	731
Unearned premiums	**147**	158
Premiums and other receivables	**(15)**	(124)
Deferred policy acquisition costs	**(36)**	(24)
Reinsurance payable	**159**	285
Reinsurance recoverable	**28**	(355)
Reinsurers' share of unearned premiums	**103**	(122)
Accounts payable and other liabilities	**10**	36
Deferred taxes	**27**	14
Other	**(23)**	(20)
Net cash flows provided by operating activities	**876**	918
Cash flows used in investing activities		
Purchases of fixed maturities	**(2,163)**	(1,393)
Proceeds from sales of fixed maturities	**1,291**	1,360
Proceeds from maturities of fixed maturities	**117**	50
Net purchases, sales and maturities of short-term investments	**(722)**	(21)
Net settlements of futures and options	**–**	–
Purchases of investment in funds	**(17)**	(84)
Redemptions of investments in funds	**547**	7
Cash flows arising from investment in associate	**–**	7
Net purchases and sales of property and equipment	**(10)**	(12)
Change in securities lending collateral	**18**	12
Net cash flows used in investing activities	**(939)**	(74)
Cash flows provided/(used in) by financing activities		
Net proceeds from Rights Issue	**289**	–
Dividends paid on common stock	**(115)**	(125)
Dividends paid on preferred stock	**(44)**	(44)
Change in securities lending collateral payable	**(18)**	(12)
Purchase of treasury stock	**(8)**	(50)
Net cash flows provided by/(used in) financing activities	**104**	(231)
Net increase in cash and cash equivalents	**41**	613
Effect of exchange rate changes	**104**	(314)
Cash and cash equivalents – beginning of year	**2,355**	2,056
Cash and cash equivalents – end of year	**$2,500**	$2,355
Supplemental cash flow information		
Taxes paid/(received)	**$6**	$(9)
Interest paid	**$5**	$7
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	**$2,023**	$2,028
Cash equivalents	**$477**	$327

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

Notes to the Consolidated Financial Statements

For the years ended 31 December 2009 and 2008

1 Nature of operations

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

The Group consists of four reporting segments:

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

As at 31 December 2009, the Group operates through underwriting hubs in London, Bermuda, United States, Asia-Pacific, Europe and Canada. The Group currently has 47 offices in 20 countries.

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

Rights Issue

In March 2009, the Group completed a Rights Issue of 2 new Common Shares for every 5 existing Common Shares. Proceeds, after issue costs, were $289 million (£200 million). Further details are given in Note 13.

2 Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ('US GAAP'). The preparation of financial statements in conformity with US GAAP requires management to make estimates when recording transactions resulting from business operations based on information currently available. The most significant items on the Group's balance sheet that involve accounting estimates and actuarial determinations are reserves for losses and loss expenses, reinsurance recoverables, valuation of investments, intangible assets and goodwill. The accounting estimates and actuarial determinations are sensitive to market conditions, investment yields and other factors. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates and actual results may differ from the estimates used in preparing the consolidated financial statements, management believes the amounts recorded are reasonable.

Certain insignificant reclassifications have been made to prior year amounts to conform to the 2009 presentation. There is no impact on net income or stockholders' equity.

Principles of consolidation

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

Reporting currency

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

Fixed maturities and short-term investments

The Group's fixed maturities and short-term investments are carried at fair value. The fair value is based on the quoted market price of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriter bid indications. Short-term investments are composed of securities with original maturities of more than 90 days and less than one year from the date of purchase.

Notes to the Consolidated Financial Statements continued

For the years ended 31 December 2009 and 2008

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

All gains or losses on fixed maturities and short-term investments are included in net investment return in the Consolidated Statements of Operations.

Investments in funds

The Group's investments in funds are carried at fair value. The fair value is based on either the net asset value provided by the funds' administrators or, where available, the quoted market price of the funds. Gains and losses resulting from changes in fair value are included within net investment return in the Consolidated Statements of Operations.

Derivatives

The Group recognises derivative financial instruments as either assets or liabilities measured at fair value. Gains and losses resulting from changes in fair value are included in net income in the Consolidated Statements of Operations. None of the derivatives used are designated as accounting hedges.

The fair values of the catastrophe swap agreements described in Note 9 are determined by management using internal models based on the valuation of the underlying notes issued by the counterparty. The determination of the fair values takes into account changes in the market for catastrophic reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date.

The fair values of option contracts and equity index futures contracts described in Note 9 are based on prices provided by independent pricing services. Any open contracts at the balance sheet date are included in investments in funds in the Consolidated Balance Sheets. Gains and losses resulting from change in fair value are included in net investment return in the Consolidated Statements of Operations.

The fair values of foreign exchange derivatives described in Note 9 are based on prices provided by independent pricing services. Gains and losses on foreign exchange derivatives are included in net realised gains/(losses) on foreign currency exchange in the Consolidated Statements of Operations.

Cash and cash equivalents

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

Securities lending

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

Premiums

Premiums are recorded as written at the inception of each policy and are earned over the policy period. Accordingly, unearned premiums represent the portion of premiums written which is applicable to the unexpired risk portion of the policies in force.

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

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

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

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

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

Reserves for losses and loss expenses are established based on amounts reported from insureds or ceding companies and according to generally accepted actuarial principals. Reserves are based on a number of factors, including experience derived from historical claim payments and actuarial assumptions to arrive at loss development factors. Such assumptions and other factors include trends, the incidence of incurred claims and the extent to which all claims have been reported. The process used in establishing reserves cannot be exact, particularly for liability and catastrophe-related coverages, since actual claim costs are dependent upon such complex factors as inflation, changes in doctrines of legal liability and damage awards. The methods of making such estimates and establishing the related liabilities are periodically reviewed and updated and any adjustments required are reflected in the net income in the current year.

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

Reinstatement premiums payable are recorded and fully expensed as they fall due. Reinsurers' share of unearned premiums represents the portion of premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts in force.

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

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

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

Intangible assets and goodwill
The Group's intangible assets relate to syndicate capacity, distribution channels and US insurance licences (as admitted and eligible surplus lines insurers). Intangible assets are valued at their fair value at the time of acquisition.

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

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

Goodwill represents the excess of purchase price over the net fair value of identifiable assets acquired and liabilities assumed in a business combination. Goodwill is deemed to have an indefinite life and is not amortised, but rather tested at least annually for impairment. Impairment losses are recognised in net income in the Consolidated Statements of Operations.

The impairment tests involve an assessment of the fair values of reporting units and intangible assets. The measurement of fair values is based on an evaluation of a number of factors, including ranges of future discounted earnings and recent market transactions. Certain key assumptions considered include forecasted trends in operating returns and cost of capital.

Other assets

Other assets include prepaid items, property and equipment, income tax recoverable and unsettled trade receivables.

Comprehensive income/(loss)

Comprehensive income/(loss) represents all changes in equity that result from recognised transactions and other economic events during the period. The Group's other comprehensive income/(loss) primarily comprises foreign currency translation adjustments.

Foreign currency translation and transactions

Foreign currency translation

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

Foreign currency transactions

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

Income taxes

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

Stock compensation

The fair value of awards under stock-based compensation arrangements is calculated on the grant date based on the share price and the exchange rate in effect on that date and is recognised on a straight-line basis over the vesting period. The calculation is updated on a regular basis to reflect revised expectations and actual experience.

Warrants

Warrant contracts are initially recorded in additional paid-in capital at cost, and continue to be classified as equity so long as they meet certain conditions. Subsequent changes in fair value are not recognised in the Consolidated Statements of Operations as long as the warrant contracts continue to be classified as equity.

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

The Group also sponsors a defined benefit pension scheme which was closed to new members in 1993. Any surplus or deficit on the scheme is carried as an asset or liability on the balance sheet.

New accounting pronouncements
In March 2008 the Financial Accounting Standards Board ('FASB') issued a new accounting standard on disclosures about derivative instruments and hedging activities. The accounting standard establishes the disclosure requirements for derivative instruments and for hedging activities. The standard requires expanded disclosure of how and why an entity uses derivative instruments, how derivatives and related hedged items are accounted for and how derivatives and related hedged items affect an entity's financial position, financial performance and cash flows. The Group adopted the new accounting standard in 2009.

Effective 1 January 2009, the Group adopted a FASB amendment to the existing accounting standard on fair value measurements and disclosures relating to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The amendment also includes guidance on identifying circumstances that indicate a transaction is not orderly and amends certain disclosure guidance. The amendment is effective for interim and annual periods ending after 15 June 2009. The adoption of the amendment did not have a material impact on the Group's financial position or results of operations.

Effective 1 January 2009, the Group adopted FASB amendments to accounting standards on fair value measurements and disclosures relating to fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of accounting standards for investment companies as of the reporting entity's measurement date. The amendments also require disclosures by major category of investment about the attributes of investments within the scope of the amendments, such as the nature of any restrictions on the investor's ability to redeem its investment at the measurement date, any unfunded commitments, and the investment strategies of investees. The amendments are effective for interim and annual periods ending after 15 December 2009. The adoption of the amendments did not have a material impact on the Group's financial position or results of operations.

In June 2009 the FASB issued the FASB Accounting Standards Codification (Codification). The Codification became the single source for all authoritative GAAP recognised by the FASB applied for financial statements issued for periods ending after 15 September 2009. The Codification did not change GAAP and did not have an impact on the Group's financial position or results of operations.

In 2009, the Group adopted amendments to accounting guidance on the following topics, none of which had a material impact on the Group's financial position or results of operations: business combinations; accounting for financial guarantee insurance contracts; employers' accounting for defined benefit pension and other postretirement plans; non-controlling interests in consolidated financial statements; recognition and presentation of other-than-temporary impairments; and subsequent events.

3 Segmental information
The Group determines its reportable segments 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 Group's syndicates at Lloyd's of London ('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 direct insurance and reinsurance business in the United States.

At 31 December 2009, there were five significant intra-Group reinsurance contracts in place: a 45 per cent Corporate Quota Share, which cedes Catlin Syndicate risk to Catlin Bermuda; a 75 per cent Quota Share contract which cedes Catlin UK risk to Catlin Bermuda; a Whole Account Stop Loss contract which cedes 4.9 per cent of premiums and up to 20 per cent of losses above a net loss ratio of 86 per cent from Catlin Syndicate to Catlin Bermuda; and two 75 per cent Quota Share contracts which cede Catlin US risk to Catlin Bermuda. 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.

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Net underwriting contribution by operating segment for the year ended 31 December 2009 is as follows:

(US dollars in millions)	Catlin Syndicate	Catlin Bermuda	Catlin UK	Catlin US	Total
Gross premiums written	$2,496	$421	$469	$329	$3,715
Reinsurance premiums ceded	(353)	(50)	(72)	(72)	(547)
Net premiums written	2,143	371	397	257	3,168
Net premiums earned	2,001	348	384	185	2,918
Losses and loss expenses	(1,079)	(150)	(331)	(121)	(1,681)
Policy acquisition costs	(392)	(76)	(84)	(34)	(586)
Net underwriting contribution	$530	$122	$(31)	$30	$651

Net underwriting contribution by operating segment for the year ended 31 December 2008 is as follows:

(US dollars in millions)	Catlin Syndicate	Catlin Bermuda	Catlin UK	Catlin US	Total
Gross premiums written	$2,416	$392	$487	$142	$3,437
Reinsurance premiums ceded	(683)	(61)	(62)	(20)	(826)
Net premiums written	1,733	331	425	122	2,611
Net premiums earned	1,793	304	407	92	2,596
Losses and loss expenses	(1,098)	(159)	(311)	(64)	(1,632)
Policy acquisition costs	(339)	(63)	(88)	(20)	(510)
Net underwriting contribution	$356	$82	$8	$8	$454

Of total revenue as reported in the Group's Consolidated Statement of Operations, only net premiums earned are measured and managed on a segmental basis.

Assets are reviewed in total by management for purposes of decision making.

4 Investments

Fixed maturities

The fair values of fixed maturities at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	2009 Fair value	2008 Fair value
US government and agencies	**$745**	$673
Non-US governments	**836**	394
Corporate securities	**1,243**	763
Asset-backed securities	**260**	257
Mortgage-backed securities	**783**	621
Total fixed maturities	**$3,867**	$2,708

$409 million (2008: $273 million) of the total mortgage-backed securities at 31 December 2009 is represented by investments in Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation bonds.

The composition of the fair values of fixed maturities by ratings assigned by rating agencies is as follows:

	2009		2008	
(US dollars in millions)	Fair value	%	Fair value	%
US government and agencies	**$745**	**19**	$673	25
Non-US governments	**836**	**22**	394	15
AAA	**1,254**	**32**	1,103	41
AA	**262**	**7**	134	5
A	**600**	**16**	364	13
BBB and other	**170**	**4**	40	1
Total fixed maturities	**$3,867**	**100**	$2,708	100

The gross unrealised gains and losses related to fixed maturities at 31 December 2009 and 2008 are as follows:

	2009		2008	
(US dollars in millions)	Gross unrealised gains	Gross unrealised losses	Gross unrealised gains	Gross unrealised losses
US government and agencies	**$16**	**$3**	$46	$2
Non-US governments	**21**	**2**	22	–
Corporate securities	**34**	**4**	15	28
Asset-backed securities	**2**	**13**	–	34
Mortgage-backed securities	**14**	**69**	9	134
Total fixed maturities	**$87**	**$91**	$92	$198

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Fixed maturities at 31 December 2009, 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.

(US dollars in millions)	Fair value
Due in one year or less	$222
Due after one through five years	2,315
Due after five years through ten years	254
Due after ten years	33
	2,824
Asset-backed securities	260
Mortgage-backed securities	783
Total	$3,867

The Group did not have an aggregate investment with a single counterparty, other than the US government, in excess of 10 per cent of total investments at 31 December 2009 and 2008.

Investments in funds

Investments in funds by category at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	2009	2008
Equity funds	**$–**	$79
Internal fund of funds	**358**	433
Funds of funds	**121**	158
Bond fund	**47**	131
Equity market option contracts	**4**	–
Total investments in funds	**$530**	$801

At 31 December 2008 Catlin's investments in equity funds comprised two equity funds invested in a variety of equity securities with an objective to provide long-term return. Both funds were redeemed in 2009.

Internal fund of funds is an internally managed fund which comprises 16 individual hedge funds invested across a diversified set of managers, strategies and underlying asset classes including credit/distressed funds, multi-strategy funds and an activist fund with an objective to provide diversification of investment holdings.

Hedge funds within the internal fund of funds are subject to redemption terms which vary from 30 days' notice and monthly redemptions to 65 days' notice and 25 per cent of funds being redeemable each quarter. Of the 16 funds held at 31 December 2009, three funds valued at $51 million had a redemption date of 31 December 2009 and further redemption notices have been submitted for four funds with redemption valuation dates ranging from 1 January to 30 April 2010.

Additionally, within the internal fund of funds, one hedge fund, valued at $10 million is in the process of closing. The redemption proceeds will be received in instalments over a two-year period. Another hedge fund, valued at $19 million, is in the process of restructuring. Catlin submitted a redemption request in this fund and expects to receive the redemption proceeds over a two-year period.

Funds of funds comprise two funds invested across a diversified set of managers, strategies and underlying asset classes including credit/distressed, credit/multi-strategy, equity hedged, multi-strategy, relative value and trading funds with an objective to provide diversification of investment holdings. At 31 December 2009 Catlin has submitted redemption notices for both funds of funds. The redemption proceeds of $121 million are expected to be received by February 2010.

The bond fund is a portfolio of government and corporate bonds with an objective to outperform the OECD bond benchmark over a two-year period. The bond fund is redeemable on a daily basis.

There are no unfunded commitments related to investment in funds as at 31 December 2009.

Net investment return

The components of net investment return for the years ended 31 December 2009 and 2008 are as follows:

(US dollars in millions)	2009	2008
Interest income	**$187**	$233
Net gains/(losses) on fixed maturities and short-term investments	**91**	(111)
Net gains/(losses) on investments in funds	**141**	(212)
Investment in associate	**–**	5
Total investment return	**419**	(85)
Investment expenses	**(5)**	(6)
Net investment return	**$414**	$(91)

The Group has elected to apply the fair value option to its fixed maturities and short-term investments. In 2009, net gains of $91 million (2008: net losses of $111 million) were included in the Consolidated Statements of Operations in relation to changes in the fair values of these assets.

Gains in 2009 on fixed maturities and short-term investments still held at 31 December 2009 were $91 million. Gains in 2009 on investments in funds still held at 31 December 2009 were $87 million.

Restricted assets

The Group is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. These funds on deposit are available to settle insurance and reinsurance liabilities. The Group also has investments in segregated portfolios primarily to provide collateral for Letters of Credit ('LOC'), as described in Note 10. Finally, the Group also utilises trust funds set up for the benefit of certain ceding companies generally as an alternative to LOCs.

The total value of these restricted assets by category at 31 December 2009 and 2008 is as follows:

(US dollars in millions)	2009	2008
Fixed maturities	**$2,134**	$1,566
Short-term investments	**41**	5
Cash and cash equivalents	**567**	350
Total restricted assets	**$2,742**	$1,921

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 $15 million (2008: $33 million) of securities on loan at 31 December 2009.

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5. Fair value measurement

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

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

Assets utilising Level 1 inputs comprise investments in equity funds and exchange traded derivatives.

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, residential mortgage-backed securities ('RMBS'), commercial mortgage-backed securities ('CMBS') and asset-backed securities ('ABS') to the extent that they are not identified as Level 3 items; over-the-counter ('OTC') derivatives (e.g. foreign exchange contracts); fixed-term cash deposits classified as short-term investments; and investments in funds with few restrictions on redemptions or new investors.

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

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

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

Assets and liabilities measured at fair value on a recurring basis

The table below shows the values at 31 December 2009 of assets and liabilities measured at fair value on a recurring basis, analysed by the level of inputs used.

(US dollars in millions)	Balance as at 31 December 2009	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
US government and agencies	$745	$–	$745	$–
Non-US governments	836	–	836	–
Corporate securities	1,243	–	1,243	–
RMBS	580	–	514	66
CMBS	203	–	203	–
ABS	256	–	252	4
CDO	4	–	–	4
Total fixed maturities	3,867	–	3,793	74
Short-term investments	796	–	796	–
Investments in funds (excluding options)	526	–	169	357
Equity market option contracts	4	4	–	–
Catastrophe swaps	1	–	–	1
Total assets at fair value	$5,194	$4	$4,758	$432

There have been no significant transfers in or out between Level 1 and Level 2 of the fair value hierarchy.

The table below shows the values at 31 December 2008 of assets and liabilities measured at fair value on a recurring basis, analysed by the level of inputs used.

(US dollars in millions)	Balance as at 31 December 2008	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
Fixed maturities	$2,708	$–	$2,671	$37
Short-term investments	69	–	69	–
Investments in funds	801	158	309	334
Catastrophe swaps	7	–	–	7
Total assets at fair value	$3,585	$158	$3,049	$378
Liabilities				
Foreign exchange derivative contracts	$17	$–	$17	$–

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The changes in the year ended 31 December 2009 in balances measured at fair value on a recurring basis using Level 3 inputs were as follows:

(US dollars in millions)	Total	RMBS	ABS	CDO	Investments in funds	Catastrophe swaps
Balance, 1 January 2009	$378	$31	$3	$3	$334	$7
Total net gains/(losses) included in income	100	9	–	(3)	100	(6)
Net (disposals)/purchases	(87)	(8)	(2)	–	(77)	–
Level 3 transfers in	41	34	3	4	–	–
Balance, 31 December 2009	$432	$66	$4	$4	$357	$1
Amount of gains/(losses) relating to balances still held at year end	$86	$8	$1	$(4)	$87	$(6)

Level 3 transfers in from Level 2 for RMBS, ABS and CDO occurred because of lack of observable market data due to a decrease in market activity for these securities.

The changes in the year ended 31 December 2008 in balances measured at fair value on a recurring basis using Level 3 inputs were as follows:

(US dollars in millions)	Total	Fixed maturities	Investments in funds	Catastrophe swaps (liabilities)/assets
Balance, 1 January 2008	$315	$82	$242	$(9)
Total net (losses)/gains included in income	(99)	(24)	(91)	16
Net purchases/(disposals)	13	(21)	34	–
Level 3 transfers in	152	–	152	–
Foreign exchange	(3)	–	(3)	–
Balance, 31 December 2008	$378	$37	$334	$7
Amount of net (losses)/gains relating to balances still held at the year end	$(100)	$(25)	$(91)	$16

Fair value of financial instruments

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

Investments: Fair values of fixed maturities and short-term investments are based on the quoted market price of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriting bid indications. The fair value of investments in funds is based on either the net asset value provided by the funds' administrators, or where available, the quoted price of the funds.

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

Subordinated debt: Subordinated debt is not carried at fair value but at historical cost. At 31 December 2009, the fair value of the subordinated debt was $69 million which compared to a carrying value of $97 million. The fair value of the subordinated debt is estimated by comparing Catlin Bermuda's preferred stock and other peer group instruments to determine market required yields. Market required yields were used to estimate market value.

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

6 Investment in associate

On 2 September 2008 the Group, through Catlin Inc., one of its US subsidiaries, sold its 25 per cent membership interest in Southern Risk Operations, L.L.C. ('SRO') which was accounted for using the equity method. The Group's share of the gain on sale was $5 million in 2008 and its share of the proceeds was $7 million. Under the terms of the sale, the Group may be entitled to further contingent consideration dependent on further thresholds being met in the next four years. In addition, the Group received cash distributions from SRO during the year ended 31 December 2008 of $1 million. The share of SRO's profit included within the Consolidated Statement of Operations during 2008 was $1 million.

7 Reserves for losses and loss expenses

The Group establishes reserves for losses and loss expenses, which are estimates of future payments of reported and unreported losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves is complex and imprecise, requiring the use of informed estimates and judgments. The Group's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in earnings in the period in which the estimates are changed. Management believes that they have made a reasonable estimate of the level of reserves at 31 December 2009 and 2008.

The reconciliation of unpaid losses and loss expenses for the years ended 31 December 2009 and 2008 is as follows:

(US dollars in millions)	2009	2008
Gross unpaid losses and loss expenses, beginning of year	**$4,606**	$4,237
Reinsurance recoverable on unpaid loss and loss expenses	**(1,070)**	(860)
Net unpaid losses and loss expenses, beginning of year	**3,536**	3,377
Net incurred losses and loss expenses for claims related to:		
Current year	**1,775**	1,750
Prior years	**(94)**	(118)
Total net incurred losses and loss expenses	**1,681**	1,632
Net paid losses and loss expenses for claims related to:		
Current year	**(232)**	60
Prior years	**(1,305)**	(1,211)
Total net paid losses and loss expenses	**(1,537)**	(1,151)
Foreign exchange and other	**109**	(326)
Loss portfolio transfer	**431**	4
Net unpaid losses and loss expenses, end of year	**4,220**	3,536
Reinsurance recoverable on unpaid losses and loss expenses	**1,172**	1,070
Gross unpaid losses and loss expenses, end of year	**$5,392**	$4,606

As a result of the changes in estimates of insured events in prior years, the 2009 reserves for losses and loss expenses net of reinsurance recoveries decreased by $94 million (2008: $118 million). The decrease in reserves relating to prior years was due to reductions in expected ultimate loss costs and reductions in uncertainty surrounding the quantification of the net cost claim events.

The Group's ultimate gross loss arising from 2008 Hurricane Ike is estimated to be $328 million (2008: $311 million) and its ultimate net loss is estimated to be $237 million (2008: $231 million) after reinsurance recoveries of $66 million (2008: $57 million) and net reinstatement premiums of $25 million (2008: $23 million). These amounts represent management's best estimate of the likely final losses to the Group from the 2008 hurricanes. In making this estimate, management has used the best information available, including estimates performed by the Group's underwriters, actuarial and claims staff, retained external actuaries, outside agencies and market studies. Allowance is made in the overall management best estimate of net unpaid losses for an appropriate level of sensitivity, for both individual large losses and the overall portfolio of business. In respect of the 2008 hurricanes, management have particularly considered sensitivities relating to gross losses on direct and reinsurance accounts, underlying loss experience of cedants and reinsurance coverage and security factors.

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Loss portfolio transfer

As part of the purchase of Wellington in 2006, the Group acquired approximately two-thirds of the capacity on Lloyd's Syndicate 2020. In a simultaneous but separate transaction, Catlin effectively acquired the remaining capacity from unaligned members by way of a cessation agreement. During the year, Syndicate 2020 closed its 2006 Lloyd's underwriting year of account by way of a Lloyd's reinsurance to close ('RITC'). RITC is a contract between the Lloyd's members on one syndicate underwriting year of account and the members on another syndicate underwriting year of account, whereby the members on the earlier year reinsure all their outstanding liabilities with the members on the later year. To the extent that members maintain their interest from one year to the next, there is no economic effect arising from this transaction. However, where members' interests change from one underwriting year of account to the next, and the Group's share of the syndicate changes as a consequence, there is an economic transfer arising from the RITC.

As a result of the transaction, the Catlin Syndicate assumed the 33 per cent of Syndicate 2020's outstanding losses previously attributable to the syndicate's third-party members, in addition to the 67 per cent share already held by the Group.

The remaining net liability in Syndicate 2020, calculated as $431 million, was assumed by Syndicate 2003 through a payment in the form of cash and investments in the same amount. The transaction has been treated as a loss portfolio transfer, recorded as an increase in net loss reserves with no impact on the Consolidated Statements of Operations.

In 2008, 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 members in respect of the 2006 year of account, which resulted in an increase in loss reserves of $4 million; this has been treated as a loss portfolio transfer.

8 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:

	2009		2008	
(US dollars in millions)	Premiums written	Premiums earned	Premiums written	Premiums earned
Direct	**$2,586**	**$2,473**	$2,467	$2,372
Assumed	**1,129**	**1,094**	970	936
Ceded	**(547)**	**(649)**	(826)	(712)
Net premiums	**$3,168**	**$2,918**	$2,611	$2,596

The Group's reinsurance recoverable as at 31 December 2009 and 2008 is as follows:

(US dollars in millions)	2009	2008
Gross reinsurance recoverable	**$1,489**	$1,260
Provision for uncollectible balances	**(48)**	(34)
Net reinsurance recoverable	**$1,441**	$1,226

The Group evaluates the financial condition of its reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. All current reinsurers have financial strength rating of at least 'A' from Standard and Poor's or 'A-' from A.M. Best at the time of placement, or provide appropriate collateral. However, certain reinsurers from prior years have experienced a reduced ratings which has led to the need for the provision. At 31 December 2009, there were two reinsurers which accounted for 5 per cent or more of the total reinsurance recoverable balance.

	% of reinsurance recoverable	Best rating
Munich Re	16%	A+
Hannover Ruck-AG	5%	A

9 Derivative financial instruments

Catastrophe swap agreements

Newton Re

On 17 December 2007, Catlin Bermuda entered into a contract that provides up to $225 million in coverage in the event of one or more natural catastrophes. Catlin Bermuda's counterparty in the catastrophe swap ('cat swap') is a special purpose vehicle, Newton Re. Newton Re has issued to investors $225 million 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 $138 million for US hurricane events and $88 million 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 ('PCS'), meet or exceed defined threshold amounts.

The cat swap has not been triggered as at 31 December 2009.

Bay Haven

On 17 November 2006, Catlin Bermuda entered into two cat swaps that provided up to $257 million in coverage in the event of a series of natural catastrophes. Catlin Bermuda's counterparty in the cat swaps was a special purpose vehicle, Bay Haven Limited. The Bay Haven cat swaps were designed to respond to certain covered risk events occurring during a three-year period. The cat swaps expired in 2009 without being triggered.

Valuation of Catastrophe Swap Agreements

The cat swaps are measured in the balance sheet at fair value with any changes in the fair value included in the Consolidated Statements of Operations. As at 31 December 2009, the fair value of the cat swaps is an asset of $1 million (2008: $7 million). As there is no liquid market in this derivative, the fair value is derived from indicative prices for the notes issued by the cat swap counterparties.

Options and futures contracts

The Group is exposed to certain risks relating to its ongoing business operations. A primary risk managed by using derivative instruments is market risk. A portion of the investment portfolio is invested in hedge funds and fund of funds. Equity market put option contracts and equity market futures contracts are entered into to manage the market risk associated with holding these investments in funds.

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

Gains and losses for equity market options and futures contracts are included in net investment return in the Consolidated Statements of Operations. Equity market put option contracts' fair value is included in investment in funds in the Consolidated Balance Sheet. No equity futures contracts were held at 31 December 2009.

Foreign exchange contracts

During the period, the Group held various foreign currency derivatives (forward contracts, caps and collars) to manage currency risk. Gains and losses on foreign exchange contracts are included in net realised gains/(losses) on foreign currency exchange in the Consolidated Statements of Operations. At 31 December 2008 the Group held two forward contracts, both of which were closed in early 2009. No contracts were held at 31 December 2009.

Notes to the Consolidated Financial Statements continued

For the years ended 31 December 2009 and 2008

Impact of derivatives

The fair values of derivatives at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	2009 Assets	2009 Liabilities	2008 Assets	2008 Liabilities
Equity market option contracts	**$4**	**$–**	$–	$–
Foreign exchange contracts	**–**	**–**	–	17
Catastrophe swaps	**1**	**–**	7	–
Total derivatives	**$5**	**$–**	**$7**	**$17**

The notional values of exchange traded and OTC open derivatives at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	Notional Value 2009	Notional Value 2008
Equity market option contracts	**$115**	$–
Foreign exchange contracts	**–**	115

The gains and losses on derivatives at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	2009	2008
Equity market options contracts	**$(6)**	$–
Equity market futures contracts	**(7)**	–
	(13)	–
Foreign exchange contracts	**4**	(26)
Catastrophe swaps	**(31)**	(13)
Net losses on derivatives	**$(40)**	**$(39)**

The derivatives contracts held by Group at 31 December 2009 contain no credit-risk-related contingent features.

10 Subordinated debt and financing arrangements

The Group's outstanding subordinated debt as at 31 December 2009 and 2008 consisted of the following:

(US dollars millions)	2009	2008
Variable rate, face amount €7, due 15 March 2035	**$11**	$10
Variable rate, face amount $27, due 15 March 2036	**28**	28
Variable rate, face amount $31, due 15 September 2036	**32**	33
Variable rate, face amount $10, due 15 September 2036	**10**	11
Variable rate, face amount €11, due 15 September 2036	**16**	16
Total subordinated debt	**$97**	$98

Subordinated debt

On 12 May 2006, Catlin Underwriting (formerly known as Wellington Underwriting plc) issued $27 million and €7 million 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 million, $10 million and €11 million 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 million 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

The Group participates in a Letter of Credit/Revolving Loan Facility (the 'Club Facility'), which includes seven banks. The Club Facility was most recently amended on 10 September 2008, when the credit available under the Club Facility was set at $600 million and £320 million. The amended Club Facility was composed of three tranches, the first of which, a 364-day, $100 million revolving facility ('Facility A'), expired undrawn on 10 September 2009. The following amounts were outstanding under the Club Facility as at 31 December 2009:

– Clean, irrevocable standby LOCs of $518 million (£320 million) are available to support the Catlin Syndicate's underwriting at Lloyd's ('Facility B'). As at 31 December 2009 the Catlin Corporate Members and the Catlin Syndicate have utilised Facility B and deposited with Lloyd's 13 LOCs which total the amount of $518 million (£320 million). In the event that the Catlin Syndicate fails to meet its obligations under policies of insurance written on its behalf, Lloyd's could draw down this letter of credit. These LOCs have an initial expiry date of 27 November 2013.

– A two-year $500 million standby LOC facility is available for utilisation by Catlin Bermuda and Catlin UK ('Facility C'). It is further split into two equal tranches of $250 million with the first being fully secured by OECD Government Bonds, US Agencies, Corporate and Asset Backed securities and or cash discounted at varying rates. The second tranche is unsecured. As at 31 December 2009 $263 million in LOCs were outstanding, of which $259 million were issued for the benefit of insureds and re-insureds of Catlin Bermuda, and $4 million (£2 million) issued for the benefit of an insured of Catlin UK. $137 million of the LOCs were issued on an unsecured basis. Facility C has an expiry date of 31 December 2010.

The terms of the Club Facility require that certain financial covenants be met on a quarterly basis as evidenced by 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. The Group was in compliance with all covenants during 2009.

A second LOC Facility administered by Citibank on behalf of Lloyd's acting for the Lloyd's Syndicates had LOCs totalling $7 million outstanding at 31 December 2009.

Catlin US issued LOCs to state regulators and other parties. These LOCs amount to $6 million.

Notes to the Consolidated Financial Statements continued

For the years ended 31 December 2009 and 2008

11 Intangible assets and goodwill

The Group's intangibles relate to the purchase of syndicate capacity, distribution channels and US insurance licenses (as admitted and eligible surplus lines insurers). Goodwill represents the excess of purchase price over the net fair value of identifiable assets acquired and liabilities assumed in a business combination.

Net intangible assets and goodwill as at 31 December 2009 and 2008 consist of the following:

(US dollars in millions)	Goodwill	Indefinite life intangibles	Finite life intangibles	Total
Net value at 1 January 2008	$93	$782	$9	$884
Movements during 2008:				
Foreign exchange revaluation	(23)	(207)	(1)	(231)
Amortisation charge	–	–	(2)	(2)
Total movements during 2008	(23)	(207)	(3)	(233)
Net value at 31 December 2008	70	575	6	651
Movements during 2009:				
Foreign exchange revaluation	7	62	–	69
Amortisation charge	–	–	(2)	(2)
Total movements during 2009	7	62	(2)	67
Net value at 31 December 2009	$77	$637	$4	$718

Goodwill, syndicate capacity and admitted licences are considered to have an indefinite life and as such are subject to annual impairment testing. Neither goodwill nor intangibles were considered impaired in 2009 or 2008.

The syndicate capacity comprises underwriting capacity that the Group purchased through business combination, syndicate cessation and direct purchases.

Syndicate capacity is tested annually for impairment by comparing management's estimate of its fair value to the amount at which it is carried in the Group's consolidated balance sheet.

The fair value of the Group's syndicate capacity is assessed by reference to market activity and internally developed cash flow models. In 2009 and 2008, management determined that the fair value of syndicate capacity exceeded its carrying value.

Distribution channels and surplus lines authorisations are considered to have a finite life and are amortised over their estimated useful lives of five years. As at 31 December 2009 the gross carrying amount of finite life intangibles was $10 million (2008: $10 million) and accumulated amortisation was $6 million (2008: $4 million). Amortisation of intangible assets at current exchange rates will amount to approximately $2 million per annum for the next two years and nil thereafter.

12 Taxation

Bermuda

Under current Bermuda law neither the Company nor its Bermuda subsidiaries is required to pay any taxes in Bermuda on their income or capital gains. Both the Company and its Bermuda subsidiaries have received undertakings from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, they will be exempt from taxation in Bermuda until March 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 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 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 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 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/(benefit) for the years ended 31 December 2009 and 2008 is as follows:

(US dollars in millions)	2009	2008
Current tax benefit	**$(31)**	$(41)
Deferred tax expense	**81**	31
Expense/(benefit) for income taxes	**$50**	$(10)

The effective tax rate for the Group is 8.3 per cent (2008: 76.9 per cent). A reconciliation of the difference between the expense/(benefit) for income taxes and the expected tax expense/(benefit) at the weighted average tax rate for the years ended 31 December 2009 and 2008 is provided below. The weighted average expected tax expense/(benefit) has been calculated using pre-tax accounting income/(loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate.

(US dollars in millions)	2009	2008
Expected tax expense/(benefit) at weighted average rate	**$33**	$(26)
Permanent differences:		
Disallowed expenses	**14**	2
Valuation allowances	**3**	11
Prior year adjustments including changes in uncertain tax positions	**–**	3
Expense/(benefit) for income taxes	**$50**	$(10)

Notes to the Consolidated Financial Statements continued

For the years ended 31 December 2009 and 2008

The components of the Group's net deferred tax liability as at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	2009	2008
Deferred tax assets:		
Net operating loss carry forwards	**$170**	$65
Stock options	**–**	4
Accelerated capital allowances	**5**	3
Syndicate capacity amortisation and other	**3**	1
Valuation allowance	**(23)**	(20)
Total deferred tax assets	**$155**	$53
Deferred tax liabilities:		
Untaxed profits	**(294)**	(142)
Intangible assets arising on business combination	**(95)**	(87)
Total deferred tax liabilities	**$(389)**	$(229)
Net deferred tax liability	**$(234)**	$(176)

As at 31 December 2009, the Group has net operating loss carry forwards of $526 million (2008: $162 million) which are available to offset future taxable income. The net operating loss carry forwards primarily arise in the UK subsidiaries and relate to accelerated tax deductions for member-level reinsurance premiums. These are taxed on a declarations basis and are therefore only timing items. There are no time restrictions on the use of these losses and they are expected to be fully utilised.

As at 31 December 2009 there are potential deferred tax assets of $23 million (2008: $20 million) in the US companies relating to 2009 calendar year losses, but a 100 per cent valuation allowance has been recognised in respect of the losses in both 2009 and 2008.

Uncertain tax benefits

As at 31 December 2009 the amount of uncertain tax benefits was $4 million (2008: $8 million). All unrecognised tax benefits would affect the effective tax rate if recognised.

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

(US dollars in millions)	2009	2008
Unrecognised tax benefits balance at 1 January	**$8**	$9
Gross decreases for tax positions of prior years	**(4)**	(1)
Unrecognised tax benefits balance at 31 December	**$4**	$8

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 consolidated financial statements. The Group did not pay or accrue any interest or penalties in 2009 or 2008 relating to uncertain tax positions.

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

Major tax jurisdiction	Years
United Kingdom	2008-2009
United States	2006-2009

13 Stockholders' equity

The following sets out the number and par value of shares authorised, issued and outstanding as at 31 December 2009 and 2008:

	2009	2008
Common Stock, par value $0.01		
Authorised	**500,000,000**	400,000,000
Issued	**358,895,225**	255,162,926
Stock held by Employee Benefit Trust	**(8,772,686)**	(6,725,149)
Outstanding	**350,122,539**	248,437,777
Preferred stock, par value $0.01		
Authorised, issued and outstanding	**600,000**	600,000

The following table outlines the changes in Common Stock issued during 2009 and 2008:

	2009	2008
Balance, 1 January	**255,162,926**	253,122,072
Rights Issue	**102,068,050**	–
Exercise of stock options and warrants	**1,664,249**	2,040,854
Balance, 31 December	**358,895,225**	255,162,926

Rights Issue

In March 2009 the Company issued 102,068,050 new Common Shares, par value of $0.01 per common share, by way of a Rights Issue at 205 pence per new Common Share on the basis of 2 new Common Shares for every 5 existing Common Shares. The proceeds of the Rights Issue, after issue costs, were $289 million.

Preferred stock

On 18 January 2007 Catlin Bermuda issued 600,000 non-cumulative perpetual preferred shares, par value of $0.01 per unit, with liquidation preference of $1,000 per unit, plus declared and unpaid dividends. Dividends at a rate of 7.249 per cent on the liquidation preference are payable semi-annually on 19 January and 19 July in arrears as and when declared by the Board of Directors, commencing on 19 July 2007 up to but not including 19 January 2017. Thereafter, if the stock has not yet been redeemed, dividends will be payable quarterly at a rate equal to 2.975 per cent plus the three-month LIBOR rate of the liquidation preference. Catlin Bermuda received proceeds of approximately $590 million net of issuance costs. 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 Common Stock in the open market. This stock will ultimately be distributed to PSP holders to the extent that the PSP awards vest. In 2008 the Group also purchased shares that will be used to satisfy PSP and/or other employee share plan awards if and when they vest and become exercisable. During 2009, the Group, through the EBT, purchased 2,303,570 of the Group's stock at an average of $4.71 (£2.91) per unit, inclusive of 846,970 under the terms of the Rights Issue. The average price of the Group's stock purchased, excluding stock related to the Rights Issue, was $5.52 (£3.41). The total amount paid for treasury stock of $8 million was deducted from the stockholders' equity. The cumulative cost of shares purchased through the EBT of $62 million is shown as a deduction to the stockholders' equity.

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For the years ended 31 December 2009 and 2008

Warrants

In 2002 the Company issued 20,064,516 warrants to purchase Common Stock. Warrants may be exercised in whole or in part, at any time, until 4 July 2012 and are exercised at a price share of $4.37 (2008: $5). During 2009, warrants increased by 869,456 in relation to the Rights Issue. No warrants were exercised in the year leaving 6,907,342 warrants outstanding at 31 December 2009. During 2008, 2,942,796 warrants to purchase Common Stock were exercised and settled net for 1,060,547 shares of Common Stock, leaving 6,037,886 warrants outstanding at 31 December 2008.

Dividends

Dividends on Common Stock

On 15 May 2009 the Group paid a final dividend on the Common Stock relating to the 2008 financial year of $0.266 (£0.18) per share to stockholders of record at the close of business on 20 February 2009. The total dividend paid for the 2008 financial year was $0.434 (£0.266) per share.

After adjusting for the bonus element included in the 2009 Rights Issue, the final dividend on the Common Stock relating to the 2008 financial year is equivalent to $0.232 (£0.157) per share, and the total dividend paid for the 2008 financial year is equivalent to $0.379 (£0.232) per share.

On 25 September 2009 the Group paid an interim dividend relating to the 2009 financial year of $0.138 per share (£0.082 per share) to stockholders of record as at 28 August 2009.

Dividends on preferred stock

On both 19 January and 19 July 2009, the Board of Catlin Bermuda paid a semi-annual dividend of $22 million to the stockholders of the non-cumulative perpetual preferred stock.

14 Employee stock compensation schemes

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

The total amount expensed to income in respect of all plans in the year ended 31 December 2009 was $22 million (2008: credit of $2 million) included in administrative and other expenses. Remaining stock compensation to be expensed in future periods relating to these plans is $27 million. As described below, the valuation of the PSP is periodically revised to take into account changes in performance against vesting conditions.

Performance Share Plan

On 12 February 2009 a total of 5,071,892 options with $nil exercise price and 2,129,954 non-vested shares (total of 7,201,846 securities) were awarded to Group employees under the PSP. In August and September 2009 a further 237,296 options with $nil exercise price and 98,136 non-vested shares (total of 335,432 securities) were awarded, resulting in a total of 7,537,278 securities granted to Group employees under the PSP in 2009. Up to half of the securities will vest in 2012 and up to half will vest in 2013, subject to certain performance conditions.

These securities have been treated as non-vested shares and as such have been measured at their fair value on the grant date as if they were fully vested and issued and assuming an annual attrition rate amongst participating employees of 7 per cent for grants made in 2009, 8 per cent for grants made in 2008, 8 per cent for grants made in 2007 and 4 per cent for grants made in 2006. This initial valuation is revised at each balance sheet date to take account of actual achievement of the performance condition that governs the level of vesting and any changes that may be required to the attrition assumption. The difference is charged or credited to the income statement, with a corresponding adjustment to equity. As a result of the Rights Issue, the number of awards was adjusted in 2009. The total number of shares in respect of which PSP securities were outstanding at 31 December 2009 was 16,886,199 (2008: 11,473,623) and the total amount of expense relating to PSP for the year ended 31 December 2009 was $22 million (2008: credit of $2 million).

The weighted average grant date fair value of the options awarded in 2009 is $5.18 and the total fair value of shares vested during the year is $9 million (2008: $9 million).

The table below shows the PSP securities as at 31 December 2009:

	Outstanding	Non-vested	Vested
Beginning of year	11,473,623	11,238,153	235,470
Rights Issue effect	1,662,402	1,628,285	34,117
Granted during year	7,537,278	7,537,278	–
Vested during the year	(669,136)	(2,472,894)	1,803,758
Forfeited during year	(1,538,666)	(1,538,666)	–
Exercised during the year	(1,579,302)	–	(1,579,302)
End of year	16,886,199	16,392,156	494,043
Exercisable, end of year	494,043	–	494,043

In addition, at each dividend payment 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 the EBT. This amount, totalling $5 million in 2009 (2008: $4 million), is taken directly to retained earnings and capitalised in stockholders' equity within additional paid-in capital.

Long Term Incentive Plan

Options over a total of 16,791,592 ordinary Common Shares were granted to eligible employees in 2004 and prior years. The LTIP options were fully exercisable and expensed by 31 December 2007. There was no compensation expense in relation to the LTIP for the years ended 31 December 2009 and 2008. All options will expire by 4 July 2012. As at 31 December 2009 there were 5,024,187 (2008: 4,454,882) options outstanding with an exercise price of $4.37 (2008: $5.00) and 204,334 (2008: 178,493) options outstanding with an exercise price of £3.06 (2008: £3.50). As a result of the Rights Issue, the number of options and the exercise price were adjusted in 2009.

15 Earnings per share

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

Diluted earnings per share is calculated by dividing the earnings attributable to common stockholders by the weighted average number of Common Shares in issue adjusted to assume conversion of all dilutive potential common shares. The Company has the following potentially dilutive instruments outstanding during the years presented:

(i) PSP;
(ii) LTIP;
(iii) Warrants; and
(iv) Employee share plans.

Income/(loss) to common stockholders is arrived at after deducting preferred share dividends of $44 million (2008: $44 million).

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

	2009	2008
Weighted average number of shares	**333,739,594**	286,038,588
Dilution effect of warrants	**1,047,080**	–
Dilution effect of stock options and non-vested shares	**10,889,601**	–
Weighted average number of shares on a diluted basis	**345,676,275**	286,038,588
Earnings/(loss) per common share		
Basic	**$1.52**	$(0.16)
Diluted	**$1.47**	$(0.16)

Notes to the Consolidated Financial Statements continued

For the years ended 31 December 2009 and 2008

In 2009 securities awarded under the PSP were included in the computation of diluted earnings per share to the extent that the performance conditions necessary for these securities to vest were met as at 31 December 2009.

Potentially issuable securities that would result in a reduction in loss per share if issued are not considered to have a dilution effect. In 2008 due to the loss incurred, no potentially issuable securities were considered dilutive. As a result, there was no difference between basic and diluted amounts.

As described in Note 13, the Company issued new Common Shares by way of a Rights Issue of 2 new Common Shares for every 5 existing Common Shares. The impact of the bonus element included within the Rights Issue has been reflected in the calculations of the basic and diluted earnings per share for the period and prior periods have been re-presented on this basis.

16 Other comprehensive loss

The following table details the individual components of other comprehensive loss for 2009 and 2008:

2009 (US dollars in millions)	Amount before tax	Tax benefit/ (expense)	Amount after tax
Defined benefit pension plan	$–	$–	$–
Cumulative translation adjustments	112	–	112
Change in accumulated other comprehensive loss	$112	$–	$112

2008 (US dollars in millions)	Amount before tax	Tax benefit/ (expense)	Amount after tax
Cumulative effect of adoption of the fair value option	$(20)	$6	$(14)
Defined benefit pension plan	1	–	1
Cumulative translation adjustments	(307)	(19)	(326)
Change in accumulated other comprehensive loss	$(326)	$(13)	$(339)

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

(US dollars in millions)	2009	2008
Cumulative translation adjustments	**$(189)**	$(301)
Funded status of defined benefit pension plan adjustment	**–**	–
Accumulated other comprehensive loss	**$(189)**	$(301)

17 Pension commitments

The Group operates various pension schemes for employees in the different countries of operation.

In the UK, the Group operates defined contribution schemes for certain directors and employees, which are administered by third-party insurance companies. The pension cost for the UK scheme was $9 million for the year ended 31 December 2009 (2008: $9 million).

In Bermuda, the Group operates a defined contribution scheme, under which the Group contributes a specified percentage of each employee's earnings. The pension cost for the Bermuda scheme was $2 million for the year ended 31 December 2009 (2008: $1 million).

In the US, Catlin Inc. has adopted a 401(k) Profit Sharing Plan ('the Plan') qualified under the Internal Revenue Code and a Non-Qualified Deferred Compensation Plan under which Catlin Inc. contributes a specified percentage of each employee's earnings. The pension cost for the US scheme was $5 million for the year ended 31 December 2009 (2008: $6 million).

In connection with the acquisition of Wellington in December 2006, the Group assumed liabilities associated with a defined benefit pension scheme which Wellington sponsored. The scheme has been closed to new members since 1993. The current membership consists only of pensioners and deferred members. Projected benefit obligations at 31 December 2009 were $27 million (2008: $20 million) and fair value of plan assets was $28 million (2008: $21 million). The pension costs for the defined benefit scheme were insignificant for the years ended 31 December 2009 and 2008.

Pension costs for pension schemes in other countries of operation are considered insignificant.

18 Statutory financial data

The statutory capital and surplus of each of the Group's principal operating subsidiaries is in excess of regulatory requirements of $995 million (2008: $856 million). The Group also has sufficient capital to meet Funds at Lloyd's requirements of $1,222 million (2008: $1,005 million).

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

The Group is also subject to restrictions on some of its assets to support its insurance and reinsurance operations, as described in Note 4.

Notes to the Consolidated Financial Statements continued

For the years ended 31 December 2009 and 2008

19 Commitments and contingencies

Legal proceedings

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

Concentrations of credit risk

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

The cash balances and investment portfolio are managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single institution issue and issuers. Similar principles are followed for the purchase of reinsurance. The Group believes that there are no significant concentrations of credit risk associated with its investments or its reinsurers. Note 8 describes concentrations of more than 5 per cent of the Group's total reinsurance recoverable asset.

Letters of credit

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

Future lease commitments

The Group leases office space and equipment under non-cancellable operating lease agreements, which expire at various times. Future minimum annual lease commitments for non-cancellable operating leases as at 31 December 2009 are as follows:

(US dollars in millions)	
2010	$14
2011	$14
2012	$13
2013	$17
2014 and thereafter	$122
Total	$180

Under non-cancellable sub-lease agreements, the Group is entitled to receive future minimum sub-lease payments of $11 million (2008: $14 million).

20 Related parties

The Group purchased services from Catlin Estates Limited and Burnhope Lodge, both of which are controlled by a Director of the Group. The cost of the services purchased from Catlin Estates Limited and Burnhope Lodge in 2009 and 2008 was insignificant.

The Group purchased services from 4C Associates Ltd, the owner of which is related to a member of management of the Group. The cost of the services purchased from 4C Associates Ltd in 2009 was insignificant (2008: $nil).

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

21 Subsequent events

Proposed dividend

On 10 February 2010 the Board approved a proposed dividend of 16.8 pence per share (26.2 cents per share), payable on 26 March 2010 to stockholders of record at the close of business on 26 February 2010. The final dividend is determined in US dollars but partially payable in sterling based on the exchange rate of £1 = $1.56 on 10 February 2010

Preferred share dividend

The Board of Catlin Bermuda approved a dividend of $22 million to the shareholders of the non-cumulative perpetual preference shares. This dividend was paid on 19 January 2010.

Management has evaluated subsequent events until 10 February 2010, the date of issuance of the financial statements.

Five-Year Financial Summary

(US dollars in millions, except share amounts)

	2009	2008	2007	2006 combined	2006 as reported	2005
Operational information						
Revenues						
Gross premiums written	**$3,715**	$3,437	$3,361	$2,722	$1,605	$1,387
Reinsurance premiums ceded	**(547)**	(826)	(787)	(399)	(195)	(198)
Net premiums earned	**2,918**	2,596	2,490	2,228	1,326	1,216
Net investment return	**414**	(91)	211	188	89	81
Change in fair value of catastrophe swaps/ derivatives	**(31)**	(13)	(30)	(1)	(1)	–
Net realised gains/(losses) on foreign currency	**30**	(21)	(4)	31	39	(14)
Other income	**4**	15	23	42	3	1
Total revenues	**3,335**	2,486	2,690	2,488	1,456	1,284
Expenses						
Losses and loss expenses	**1,681**	1,632	1,154	1,113	681	865
Policy acquisition costs	**586**	510	531	541	286	261
Administrative and other expenses	**449**	339	439	291	202	128
Financing costs	**16**	18	22	23	11	2
Total expenses	**2,732**	2,499	2,146	1,968	1,180	1,256
Net income/(loss) before income tax	**603**	(13)	544	520	276	28
Income tax (expense)/benefit	**(50)**	10	(60)	(92)	(17)	(8)
Net income/(loss)	**553**	(3)	484	428	259	20
Preferred stock dividends	**(44)**	(44)	(22)	–	–	–
Net income/(loss) to common stockholders	**$509**	$(47)	$462	$428	$259	$20
Basic earnings per share	**$1.52**	$(0.16)	$1.61	$1.51	$1.39	$0.11
Diluted earnings per share	**$1.47**	$(0.16)	$1.52	$1.43	$1.28	$0.10
Balance sheet information						
Total cash and investments	**$7,693**	$5,933	$6,001	$5,014	$5,014	$2,371
Total assets	**11,682**	9,659	9,601	8,606	8,606	3,860
Unpaid losses and loss expenses	**5,392**	4,606	4,238	4,005	4,005	1,995
Unearned premiums	**1,724**	1,536	1,507	1,290	1,290	664
Total stockholders' equity	**3,278**	2,469	3,017	2,018	2,018	931
Key statistics						
Loss ratio	**57.6%**	62.9%	46.4%	50.0%	51.4%	71.1%
Expense ratio	**31.5%**	32.0%	34.1%	32.6%	33.1%	30.9%
Combined ratio	**89.1%**	94.9%	80.6%	82.6%	84.5%	102.0%
Return on net tangible assets	**33.2%**	(2.8%)	36.1%	29.4%	28.2%	2.2%
Return on equity	**24.3%**	(1.9%)	22.9%	26.2%	26.4%	2.0%
Effective tax rate	**8.3%**	NM	11.0%	17.7%	6.0%	28.9%

Notes:

1. Per share amounts previously reported have been adjusted by a factor of 87.34% to reflect the effects of the 2 for 5 Rights Issue in March 2009.
2. Expense ratio, combined ratio, return on net tangible assets and return on equity previously reported have been rebased to account for changes in methodology.

Glossary

Active underwriter
The individual at a Lloyd's syndicate with principal authority to accept insurance and reinsurance risk on behalf of the syndicate.

Binding authority
An agreement under which an insurer delegates its authority, subject to certain limits, to enter into insurance contracts to a coverholder.

Combined ratio
The sum of the loss ratio plus the expense ratio. A combined ratio of less than 100 per cent means an insurer has achieved an underwriting profit.

Coverholder
A firm that is authorised by an insurer/Lloyd's syndicate to underwrite insurance or reinsurance contracts on its behalf.

Excess of loss
A type of reinsurance that covers specified losses incurred by the reassured in excess of a stated amount (the excess) up to a higher amount.

Expense ratio
Policy acquisition costs, most administrative expenses and other expenses divided by net premiums earned. Financing expenses, profit-related bonus, employee share option schemes and certain Group corporate costs are not included in the calculation.

Facultative risk
A risk that is placed by means of a separately negotiated contract as opposed to one that is part of a larger programme or treaty.

Inception date
The date on which an insurance or reinsurance contract comes into force.

Lead underwriter
The insurer or Lloyd's syndicate responsible for setting the terms of an insurance or reinsurance contract that is subscribed by more than one insurer and/or syndicate. The lead underwriter generally has primary responsibility for handling any claims arising under such a contract.

Loss ratio
Losses and less expenses divided by net premiums earned.

Name
An individual member of Lloyd's.

Premiums
The amount paid to an insurer for coverage. Written premiums refer to the entire premium paid by the assured. Earned premiums refer to the amount of premiums relating to expired portions of contracts underwritten; unearned premiums refer to premiums applicable to unexpired portions of policy periods. Gross premiums refer to the amount of premium underwritten before reinsurance costs; net premiums refer to the amount of premium minus premiums paid for reinsurance.

Proportional reinsurance
A type of reinsurance in which the reinsurer shares similar proportions of the premiums earned and the claims incurred as the reassured, plus certain associated expenses.

Quota share
A reinsurance treaty under which the reassured cedes a specified percentage of all premiums received over a given period; in return, the reinsurer is obliged to pay the same percentage of any claims and specified expenses arising on the reinsured account.

Single-risk loss
A major loss occurring at one location (as opposed to catastrophe losses, which are the combination of losses occurring from one cause at numerous locations).

US GAAP
Accounting principles generally accepted in the United States of America. Catlin's consolidated financial statements are prepared in accordance with US GAAP.

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