CATLIN

Catlin Group Limited
Annual Report and Accounts 2006

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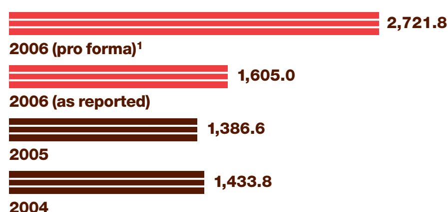
Financial and Operational Highlights

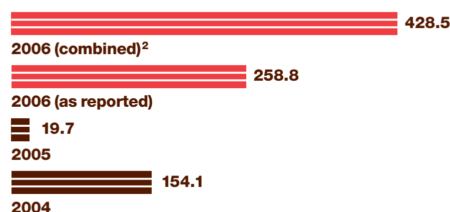
Catlin Group Limited is a leading global specialty insurer and reinsurer providing creative risk management solutions and excellent financial security to clients worldwide. Our strength is evident in our 2006 results.

Gross premiums written (US$m)



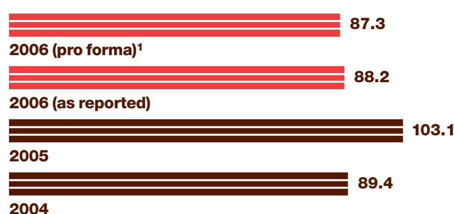
US$2,721.8m

Net income (US$m)



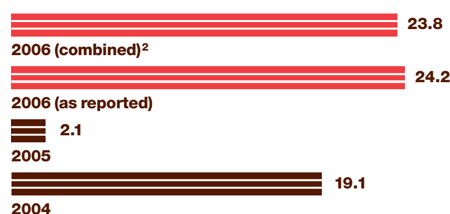
US$428.5m

Combined ratio (%)



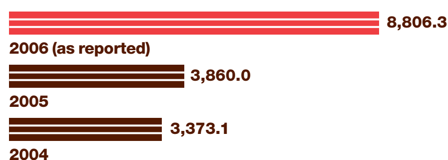
87.3%

Return on average equity (US$m)



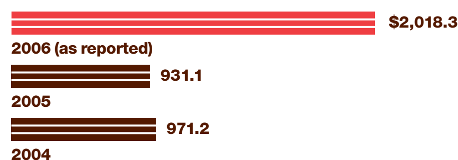
23.8%

Total assets (US$m)



US$8,806.3m

Stockholders' equity (US$m)



US$2,018.3m

- Strong underwriting performance in 2006 for Catlin and Wellington
- Wellington acquisition: employees relocated, debt refinanced and operations integrated
- Acquisition expected to be earnings accretive in 2007; at least US$70 million in synergies in 2008
- Estimated written premium volume for January 2007 renewals slightly above combined volumes for same period in 2006
- Catlin looks ahead with confidence

1 Includes Catlin and Wellington operations (unaudited)
2 Includes Catlin and Wellington operations (unaudited); excludes pro forma adjustments

Catlin Group at a Glance

Including Catlin and Wellington's operations, the Catlin Group wrote combined gross premiums* amounting to US$2.72 billion during 2006.

40 offices worldwide

United States
- Atlanta, GA
- Scottsdale, AZ
- Manhattan Beach, CA
- Palo Alto, CA
- Sonoma, CA
- Walnut Creek, CA
- Hartford, CT
- Wilton, CT
- Chicago, IL
- Overland Park, KS
- New Orleans, LA
- Missoula, MT
- Paramus, NJ
- Summit, NJ
- New York, NY
- Cleveland, OH
- Columbus, OH
- Houston, TX
- San Antonio, TX

Canada
- Toronto
- Calgary

Bermuda
- Hamilton

UK
- Birmingham
- Derby
- Glasgow
- Ipswich
- Leeds
- London
- Tonbridge
- Watford

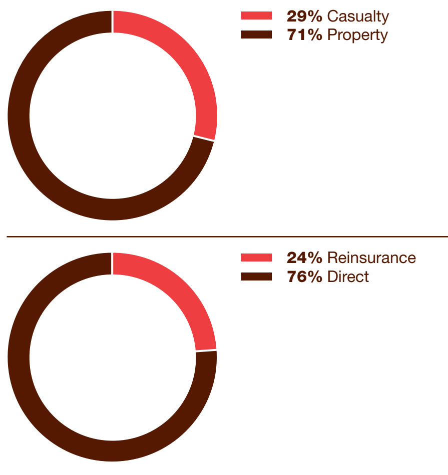
Europe
- Antwerp
- Barcelona
- Cologne
- Guernsey
- Innsbruck
- Paris
- Zurich

Asia
- Hong Kong
- Kuala Lumpur
- Singapore

Australia
- Sydney

Mix of business**

Catlin underwrites an increasingly diversified portfolio of insurance and reinsurance business. The significant amounts of uncorrelated risk underwritten greatly benefit the Group.



More than 30 classes of business

Accident & Health; Accident & Health Reinsurance; Aviation; Cargo; Casualty Reinsurance; Construction & Engineering; Contingency; Crisis Management; Energy; Equine & Livestock; Financial Institutions; General Liability; Marine & Aviation Reinsurance; Marine & Energy Liability; Marine Hull; Medical Malpractice; Motor Excess of Loss; Non-Marine Binding Authorities; Nuclear; Political Risk, Terrorism & War; Professional Liability; Property Facultative; Property Reinsurance; Satellite; Specie; Structured Risk; Trade Credit; UK Commercial Crime; UK Commercial Property; UK Directors' & Officers' Liability; UK General Liability; UK Professional Indemnity

Our underwriting platforms

Catlin Syndicate
The Catlin Syndicate is the largest syndicate at Lloyd's for 2007 based on a premium capacity of £1.25 billion. It is a recognised leader of numerous classes of specialty insurance and reinsurance. The Syndicate now includes the operations of Wellington Syndicate 2020.

Catlin Bermuda
Catlin Bermuda is a leading participant in the Bermuda market, underwriting a diversified portfolio of property treaty, casualty treaty, political risk and terrorism, and structured risk coverages. It also provides intra-Group reinsurance to other Catlin underwriting platforms.

Catlin UK
Catlin UK specialises in underwriting property and casualty insurance for smaller to medium size UK commercial clients through a network of regional offices. It also writes other classes of business underwritten by the Catlin Syndicate.

Catlin US
Catlin US, the Group's newest underwriting platform, encompasses all of the Group's operations in the United States. Catlin US underwrites a wide variety of insurance and reinsurance products from more than 15 offices with a staff of 185 employees.

* Unaudited
** Based on pro forma combination of Catlin and Wellington operations

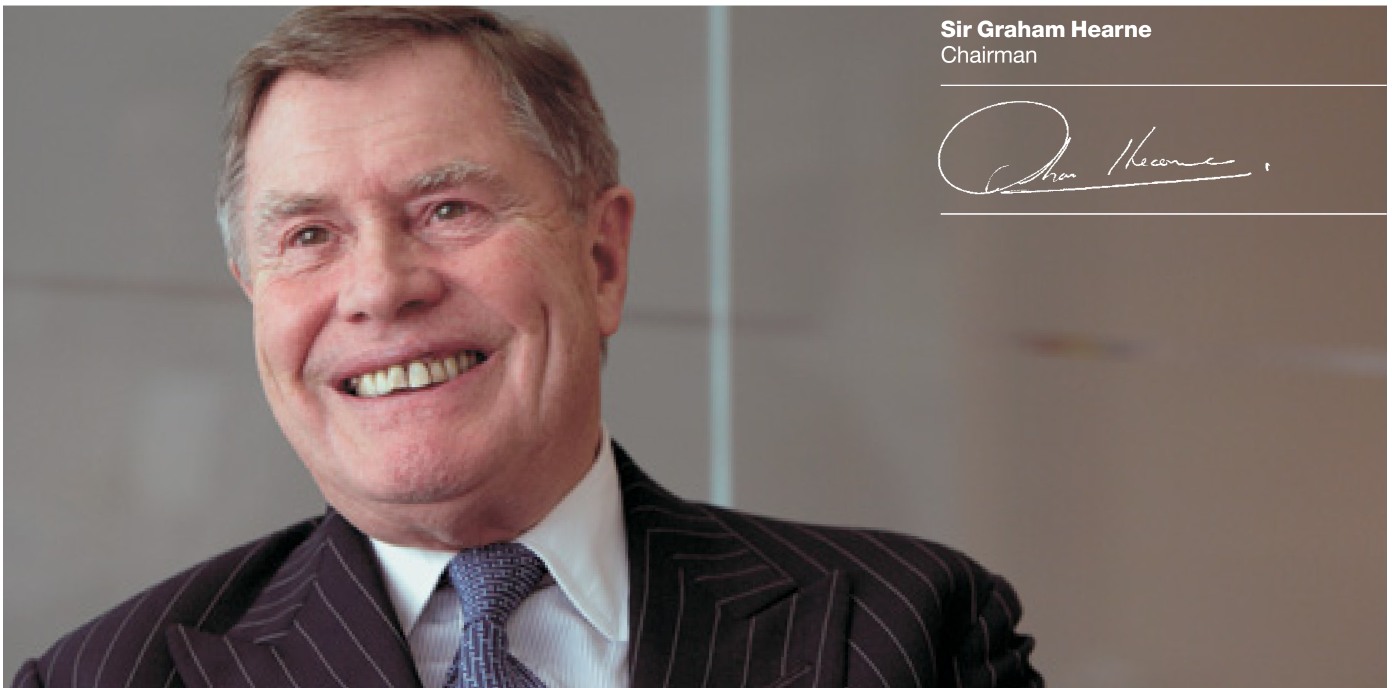
"With our market leadership position strengthened and reputation for financial prudence and disciplined underwriting enhanced, Catlin has never been in a stronger position."

US$258.8m

The Catlin Group produced record net income of US$258.8 million in 2006 as reported.

24.2%

Catlin's return on average equity amounted to 24.2 per cent in 2006 as reported.



Sir Graham Hearne
Chairman

A year ago, in the aftermath of Hurricanes Katrina, Rita and Wilma, I expressed optimism that the unparalleled catastrophe losses of 2005 would create new opportunities for the Catlin Group. This was indeed the case during 2006:

- The Group achieved excellent operating results as Catlin's reported net income rose to a record US$258.8 million (2005: US$19.7 million) and return on average equity increased to 24.2 per cent (2005: 2.1 per cent).
- Catlin's market position was substantially enhanced by the acquisition of Wellington Underwriting plc, which was declared unconditional on 18 December 2006. Including Wellington, Catlin's net income amounted to US$428.5 million and the return on average equity was 23.8 per cent.

The acquisition of Wellington is a watershed in Catlin's evolution. The Catlin Syndicate now ranks as the largest syndicate at Lloyd's in terms of premium capacity, and the Group's other operating platforms are in a position to write increased volumes of business as a result of the acquisition. The addition of Wellington's established US-based operations significantly advances the development of Catlin US. The combination of the two companies' books of business broadens the Group's already diversified risk portfolio. Catlin's staff will be strengthened by the addition of a group of talented employees. The acquisition is now expected to be earnings accretive in 2007, and synergies are expected to increase earnings substantially in 2008 and future years.

Dividend

As first announced in October 2006, the Board of Directors proposes a final dividend of 17 pence (32.8 US cents) per share, payable on 8 June 2007 to shareholders of record at the close of business on 11 May 2007. Including the interim dividend of 6 pence (11.3 US cents) per share paid on 10 November 2006, the proposed 2006 dividend represents an increase of 48 per cent on the 2005 dividend paid to Catlin shareholders and a pro forma 37 per cent increase on the 2005 dividend paid to former Wellington shareholders.

Catlin is committed to providing an attractive return to shareholders through the dividend and will continue its current policy under which dividend payments are linked to recent trends in the Group's performance as well as to future prospects.

Capital/share issues

Catlin's capital base was strengthened during 2006 by earnings and through the addition of Wellington's net assets. Stockholders' equity increased 117 per cent to US$2.02 billion at 31 December 2006 (31 December 2005: US$931.1 million). Included in this increase was US$65 million in net proceeds from the placement of 7.7 million new common shares in March 2006. To fulfil the share portion of the Wellington offer, the Group has issued 86.1 million new common shares.

In January 2007, Catlin Bermuda (Catlin Insurance Company Ltd.) issued US$600 million in non-cumulative perpetual preferred shares at a dividend rate of 7.249 per cent. The proceeds from this issue, which received an excellent response from investors, was used primarily to repay the US$500 million short-term debt facility Catlin established as part of the financing for the Wellington acquisition and also for general corporate purposes.

Board of Directors

Jonathan Kelly and Gene Lee will be retiring from the Board at the conclusion of our upcoming Annual General Meeting, as the entitlement under the Group's Bye-laws for their appointing shareholders to maintain a Director in office has lapsed. In addition, Richard Haverland has decided to retire from the Board. I would like to thank them for their many contributions to the Group's success and to thank all Directors for their guidance and hard work during a demanding year.

Outlook

The acquisition of Wellington has made Catlin a much larger company in terms of premiums written, profits, assets and stockholders' equity. Our increased size and stature has strengthened our balance sheet and creates exciting opportunities for further growth. Market conditions remain favourable, with rates adequate across all of the classes of business the Group underwrites. With our market leadership position strengthened and reputation for financial prudence and disciplined underwriting secure, Catlin has never been in a stronger position.

It gives me great pleasure to welcome the management and staff of Wellington to the Catlin Group. The past 12 months have presented a new, exciting set of challenges for them and the rest of the Catlin team. I express my sincere thanks to Stephen Catlin and all employees for their hard work, and I look forward to reporting on their further achievements next year.

Chief Executive's Review

"We now expect that the acquisition will be earnings accretive in 2007 and we now anticipate that synergies in 2008 will amount to at least US$70 million."

US$2.02bn

The Catlin Group's stockholders' equity amounted to US$2.02 billion at 31 December 2006.

120%

Gross premiums written by Catlin's international offices rose by 120 per cent in 2006.

Stephen Catlin
Chief Executive, Catlin Group

The Catlin Group's strong operating results for 2006 combined with our acquisition of Wellington Underwriting plc provides Catlin with a springboard for growth and earnings potential in the years ahead.

As soon as we announced our offer to acquire Wellington in October 2006, we began to plan how we could most effectively combine the two companies. Our plan has been successful: we have already relocated employees, refinanced our debt and integrated Wellington's operations:

- **Relocation.** A key strategy was to ensure that Catlin and Wellington employees could work as soon as possible from the same location in London, where the majority of both companies' employees are based. All underwriting staff began working from a new, purpose-built underwriting floor in Catlin's London office within 14 hours after the offer to acquire Wellington was declared unconditional on 18 December 2006. All other employees were relocated to Catlin's office by 4 February.
- **Refinancing.** To finance the Wellington acquisition in part, Catlin arranged a US$500 million bridge financing facility. Our goal was to refinance this debt as quickly as possible. On 18 January 2007 Catlin Bermuda issued US$600 million in non-cumulative perpetual preferred shares to repay the bridge financing and for general corporate purposes. The demand for the preferred shares was strong, and the shares qualify as capital for regulatory purposes in Bermuda and, in large part, for the rating agencies.
- **Integration.** All underwriting and operational functions have been integrated. Details of all insurance contracts incepting on or after 1 January 2007 are stored in Catlin's data warehouse, and prior year Wellington data will be carefully migrated over time.

Part of the integration process included employee departures. Since the offer was declared unconditional, there have been 47 agreed employee departures and 31 resignations. Eight underwriters have resigned out of more than 220 employed by the Group. These resignations will not have a meaningful impact on Catlin's future operations.

We now expect that the acquisition will be earnings accretive in 2007 after restructuring and retention costs, and we anticipate that synergies in 2008 will amount to at least US$70 million.

The acquisition of Wellington strengthens Catlin and provides a platform for continued profitable growth. The acquisition is expected to double Catlin's gross premiums in a favourable underwriting environment and has significantly increased the Group's investment portfolio and stockholders' equity. Improved market positioning arising from the combination of the complementary underwriting portfolios, organic growth plans and increasing levels of intra-group reinsurance should enable all four Catlin operating platforms to increase their flow of profitable business.

Significantly, structural aspects of the acquisition have created embedded growth that the Group will realise over the next several years. Previously, Wellington owned only approximately two-thirds of the capacity of its Lloyd's Syndicate 2020, acting solely as agent for the third parties who supplied the remaining capacity. Concurrent with the acquisition and through the cessation of Syndicate 2020, Catlin in effect removed the third-party capacity and combined the Wellington and Catlin Syndicates. As a result, there will be an uplift in 2007 in the amount of business retained by the Group. There will be a further uplift after 2008, when the quota share reinsurance now provided by some of Wellington's former third-party capacity providers expires.

This embedded growth is in addition to the organic growth that Catlin aims to achieve. We anticipate significant growth from our international network of offices and from Catlin US, our fourth underwriting platform. Gross premiums written by our international offices rose by 120 per cent in 2006 to US$106 million (2005:US$48 million), and we anticipate a further increase to approximately $150 million in 2007. This growth reflects the development of our existing offices and the establishment of new offices in Hong Kong and Calgary in 2006 and in Paris, Barcelona, Zurich and Innsbruck so far in 2007.

Catlin US developed rapidly during 2006 with the appointment of Richard Banas as President and Chief Executive Officer. Rich has recruited a team of seasoned executives, opened new offices in Atlanta and New York, and developed new books of professional liability and general/excess liability business to go along with Catlin US's existing book of medical malpractice insurance. The development of Catlin US will be accelerated by the acquisition, with the addition of Wellington's established US insurance and reinsurance operations. Combined, Catlin and Wellington US operations wrote gross premiums of US$305 million in 2006 (2005: US$238 million), and we project that this volume will increase to approximately US$450 million in 2007 as existing specialties are developed and new underwriting teams are recruited.

Catlin achieved an excellent underwriting performance in 2006. Whilst 2005 saw a record level of catastrophe losses including Hurricanes Katrina, Rita and Wilma, 2006 was a benign year for natural catastrophes. Average weighted premium rates for Catlin's catastrophe exposed business increased by 31 per cent during the year, whilst rates for uncorrelated business decreased by 3 per cent. Overall, average weighted premium rates across Catlin's risk portfolio increased by 6 per cent. Rate adequacy was strong in the vast majority of business classes we write.

Detailed commentary regarding our 2006 performance is including in the attached Underwriting Review and Financial Review.

For 2007, we expect premium rates for catastrophe exposed business to be broadly neutral following the large increases in 2006, although catastrophe rates will greatly depend on catastrophe loss experience during the year. Rates for non-catastrophe exposed business will remain under pressure, but margins are expected to remain good across the portfolio.

When we made our original offer to acquire Wellington, we anticipated that we could possibly lose a substantial amount of business that had been previously underwritten by Wellington. That has not been the case. For the January 2007 renewal season, written premium was slightly greater than the combined volumes written during the same period in 2006. Overall, we are pleased with our performance to date in 2007.

The entire Catlin team continues to work extremely hard to deliver superior results to our shareholders. 2006 has been a particularly busy year because of the Wellington acquisition, and I would like to thank our employees – both old and new – for their dedication and effort.

Given the advantages that the Wellington acquisition has provided to Catlin, the market environment, our experience to date in 2007, and the prospects of embedded and organic growth, I believe Catlin's prospects in 2007 and beyond are excellent.

1

Strength through diversification

Throughout its history Catlin has strived to underwrite a highly diversified portfolio of risk, and the value of diversification was demonstrated by the 2005 hurricane losses.

The acquisition of Wellington further diversifies Catlin's portfolio as does the development of Catlin US and the Group's network of international offices. As Catlin grows, it will continue to target new business classes and geographic areas to enhance performance.

2

Strength through scale

The acquisition of Wellington has made Catlin a much larger company in terms of premiums written, profits, assets and stockholders' equity. Catlin's greater scale has increased the Group's stature and creates additional, exciting opportunities for further growth.

Catlin's new scale offers clients increased financial security.

3

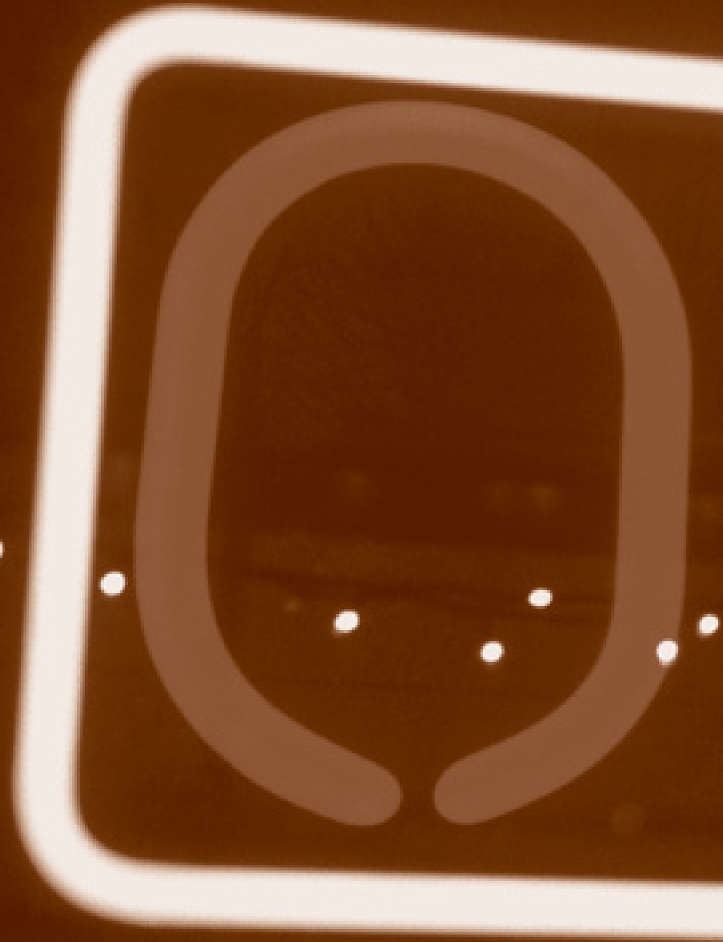
Strength through leadership

The acquisition of Wellington has launched Catlin into a leadership position in the global specialty insurance and reinsurance market. We have increased the amount of business that our underwriters lead, and our wider distribution channels have fortified our market position.

The Catlin Syndicate is now the largest at Lloyd's; Catlin has the ability to offer more substantial lines of coverage on larger risks; our portfolio has become even more diversified. Brokers and clients now automatically look to Catlin, recognising our leadership capabilities.

4

Strength through culture



Catlin has nurtured a unique culture as it has grown over time. The Catlin culture is based on values such as disciplined underwriting, open and transparent business dealings and communication, integrity and ethical behaviour, and teamwork. The culture empowers Catlin employees to perform to the best of their abilities.

A carefully planned integration process following the aquisition strives to ensure that both our long-time and new employees share the same values.

PEN

These combined strengths defin diversification, size and leadershi attractive partner for clients. Ou that brings out the best in our em

1 Strength through diversification

"We continually seek new sources of business to ensure a balanced risk portfolio."

Paul Brand
Chief Underwriting Officer

Catlin writes a diversified, balanced portfolio made up of more than 30 classes of business – property and casualty, insurance and reinsurance. During 2006, Catlin significantly reduced its aggregate property catastrophe exposures and increased the amount of non-catastrophe business it underwrites. Writing significant amounts of uncorrelated risk greatly benefits Catlin, as profits from classes with benign loss experience can help offset losses in catastrophe exposed business.

- **More than 30 classes of business**
- **Four underwriting platforms**
- **International offices provide new sources of business**
- **Continually seeking uncorrelated risk**
- **Wellington acquisition increases diversification**

2 Strength through scale

"The acquisition not only strengthens our balance sheet but also increases our financial flexibility."

Chris Stooke
Chief Financial Officer

The acquisition of Wellington has significantly strengthened Catlin's capital position, with stockholders' equity increasing by 117 per cent during 2006 and total assets increasing by 128 per cent.

Overall, Catlin's broader scale opens up new opportunities around the world.

- **Acquisition strengthens Catlin's capital base**
- **Increased size and stature give Catlin enhanced status in marketplace**
- **Catlin continues to offer clients excellent financial security**

e 'the Catlin Way'. Our p capabilities make Catlin an r culture is an added strength nployees.

3 Strength through leadership

"Catlin is now in a position where it cannot be ignored by clients and brokers."

Paul Jardine
Chief Operating Officer and CEO, Catlin Syndicate

Catlin now has a higher profile in the marketplace. The Catlin Syndicate is now the largest at Lloyd's. Catlin has the ability both to lead more business and to write larger lines. Brokers and clients are increasingly looking towards Catlin.

- **Catlin is a leader in specialty insurance and reinsurance around the world**
- **The Catlin-Wellington combination has created the leading syndicate at Lloyd's**
- **Other operating platforms benefit from Catlin's leadership position**

4 Strength through culture

"Our people and the culture supporting them are our greatest strengths."

Stephen Catlin
Chief Executive

Catlin has established a corporate culture designed to empower employees. Together with Catlin's unwavering focus on disciplined underwriting, the Catlin Culture encourages an open working environment that allows employees to exchange information and ideas freely.

The evolution of this culture is an important part of our integration of Wellington's employees.

- **Nearly 1,000 employees now work for Catlin**
- **Employees share a carefully nurtured culture**
- **Underwriting discipline is paramount**
- **Transparent and open working environment creates value**
- **Catlin is committed to highest standards**

Business Review

Strategy

Catlin Group Limited strives to be a **successful and strong independent specialist in the global insurance and reinsurance markets.** The Group's overriding aim is to build a business for the future.

To achieve these goals, the Group has established the following strategic objectives:

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

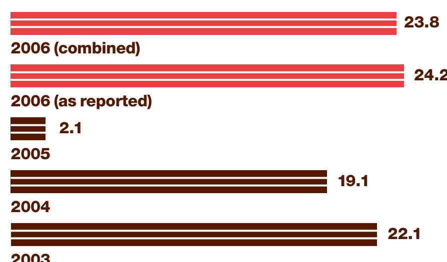
Operating Principles

Catlin has established a core set of operating principles that the Group follows as it carries out its strategy:

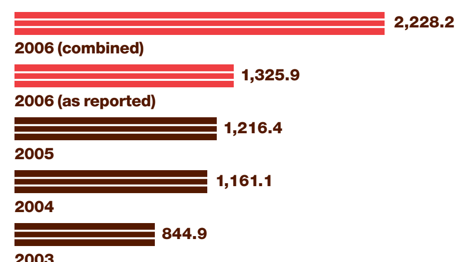
- **Forward-looking approach**
  Catlin takes a long-term view of business and market conditions. The Group seeks to concentrate on business activities that will produce long-term, sustainable earnings across underwriting cycles.
- **Atractive return on capital**
  Property and casualty insurance and reinsurance is a cyclical business, with cycles often varying across different business classes. Returns on capital can vary greatly, depending upon market conditions and the occurrence of catastrophic losses. While it is not possible to guarantee a minimum annual return on capital, Catlin strives to produce attractive returns and, over the longer term, to rank consistently among the top performing companies in its sector.
- **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 declining market conditions. This philosophy extends to the specific underwriting cycles that affect individual classes of business. Because it underwrites a diversified book of business, Catlin aims to profit from the specific favourable underwriting opportunities that can exist even when general market conditions are adverse.
- **Focus on gross underwriting profits**
  Underwriters report on a gross of reinsurance basis. The Catlin Group expects each class to produce a gross profit in the aggregate through its cycle.
- **Diversification by class and distribution**
  Catlin actively explores new classes of business and geographic markets to enlarge its core earnings base. Over the years, Catlin has diversified from its origins as a marine syndicate at Lloyd's to write numerous classes of specialty property and casualty insurance and reinsurance, seeking opportunities for underwriting profit and the spread of uncorrelated risk. Catlin seeks a balance between volatile and non-volatile classes of business.
- **Conservative reserving philosophy**
  Catlin sets reserves conservatively within the actuarial range of estimates, reflecting inherent uncertainties in estimating insurance and reinsurance liabilities.
- **An underwriting and corporate structure which maximises scope for earnings growth and provides flexibility**
  Catlin's four underwriting platforms provide access to diversified business opportunities in the world's major insurance and reinsurance markets. Catlin's network of international offices provides the underwriting platforms with flows of business that would otherwise be placed with local carriers and allows Catlin to strengthen relationships with local clients and retail brokers. The Group is domiciled in Bermuda, which allows Catlin to utilise its capital in a flexible and tax-efficient manner.

The Business Review provides commentary on Catlin operations for the year ended 31 December 2006. As the operating results of Wellington Underwriting plc are not included in the Group's audited financial statements which begin on page 63, the commentary pertains only to Catlin's operations during the past year and figures are as reported in the financial statements, except as noted. Information regarding the Wellington acquisition appears on page 22, and an unaudited pro forma consolidated statement of Catlin's and Wellington operations for the year ended 31 December 2006 appears on page 33.

Return on average equity (%)



Net premiums earned (US$m)



- **Emphasis on capital preservation**
  Catlin seeks to underwrite business that presents the highest returns against the least risk, both to maximise profits and to protect its capital base. The Group actively looks for opportunities to write new classes of business which produce an underwriting profit and, where possible, are uncorrelated to its existing portfolio. Catlin uses outwards third-party reinsurance both to protect its capital base and to increase underwriting capacity. Catlin also utilises a risk-averse approach in the management of its investments, and its portfolio comprises primarily highly rated fixed income securities and cash.
- **Maximisation of relationships with core clients, brokers and other counterparties**
  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, profitable relationships should not be broken because of short term considerations. The Group works closely with core clients to provide innovative solutions to their needs and with brokers to offer consistent support and dependable capacity. Catlin seeks transparent relationships with all counterparties.
- **Continuous improvement of technical capabilities**
  Catlin recognises that ongoing investment in people, systems, processes and controls is essential to compete effectively. As Catlin grows, it continues to attract high-quality professionals in all areas of its operations to provide further depth to an already strong team. Catlin also continues to develop its proprietary underwriting system and data warehouse that have been designed to the specifications of its underwriters and that allow Catlin underwriting platforms and offices to share a single database.
- **A culture that stresses open communication and accountability for actions**
  As it has grown, Catlin has retained a corporate culture that gives underwriters and other key employees significant responsibility for business decisions. The Catlin Culture is based on open communication and transparency, and is supported by a comprehensive control framework which enables the Group to monitor effectively decisions made by employees. This culture includes a Group-oriented mentality, including a profit-related bonus plan that encourages employees to collaborate and share information. As well as contributing to the Catlin Group's success, this culture has also resulted over time in a low level of staff turnover, particularly at the management and underwriter level.

Key Performance Indicators

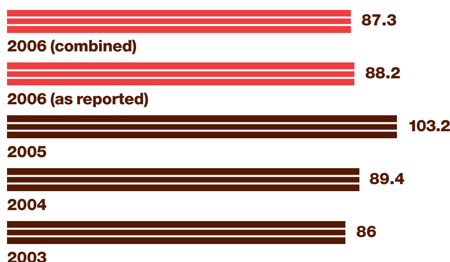
Catlin believes that the Group's overall performance is best measured through return on average equity (ROE). During 2006, Catlin produced an ROE of 24.2 per cent on a reported basis, which was a significant improvement compared with the 2.1 per cent ROE produced by the Group in 2005 following the significant hurricane losses in the second half of that year. On an unaudited combined basis, Catlin's and Wellington's combined operations produced an ROE of 23.8 per cent.

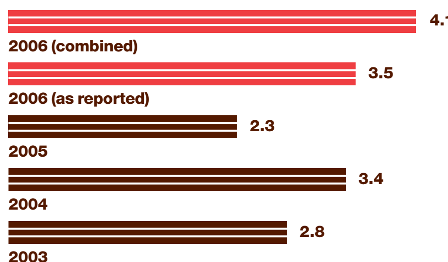
The 2006 ROE is in line with Catlin's objective of producing an ROE across an underwriting cycle that is ten percentage points higher than the risk free rate.

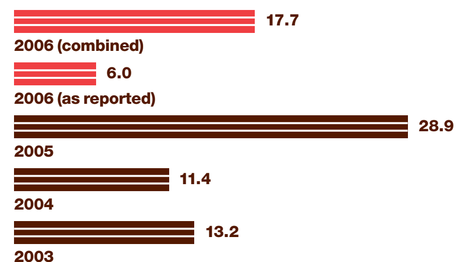
The following measurements are the main drivers of ROE:

- **Net premiums earned**, which is a driver of earnings from business underwritten by the Group. Net premiums earned as reported increased 9 per cent to US$1.33 billion (2005: US$1.22 billion). On a combined basis, net premiums earned amounted to US$2.23 billion).
- **Combined ratio**, which measures claims, distribution and overhead expenditures. Catlin's combined ratio in 2006 of 88.2 per cent as reported (2005: 103.1 per cent) was indicative of the Group's strong underwriting performance. The combined ratio for Catlin and Wellington's combined operations was 87.3 per cent.
- **Total investment return**, which reflects investment income and gains and losses on the Group's portfolio of invested assets. Total investment return as reported during 2006 amounted to 3.5 per cent (2005: 2.3 per cent). For Catlin and Wellington combined, total investment return amounted to 4.1 per cent.
- **Tax rate**. The Group's tax rate during 2006 as reported was 6.0 per cent (2005: 28.9 per cent), which reflects the Group's efficient capital structure and the fact that a large share of the Group's profits in 2006 arose in Bermuda. Wellington's tax rate was similar to the UK corporate tax rate; on a combined basis the Group's tax rate during 2006 was 17.7 per cent.

Detailed commentary regarding the Group's financial performance and the efficient utilisation of the Group's capital base begins on page 32.







The Wellington Acquisition

Catlin's acquisition of Wellington Underwriting plc is expected to bring material benefits to the business. Catlin's and Wellington's businesses are complementary with strong operational and underwriting expertise which will be further strengthened and diversified through the combination. On an unaudited combined basis, Catlin and Wellington's operations produced net income in 2006 amounting to US$428.5 million, representing a 23.8 per cent return on average equity.

Catlin's recommended offer to acquire Wellington was declared unconditional on 18 December 2006. The combination of the businesses was deemed effective 31 December 2006 for accounting purposes and the net assets acquired have been valued as at that date. The operating results of Wellington will be included in Catlin's consolidated financial statements for periods following 31 December 2006.

Under the terms of the offer, Wellington shareholders received 0.17 shares of the Company's common stock and 35 pence in cash for each Wellington share. Total consideration including expenses for the transaction was approximately US$1.18 billion, including US$347 million of cash and 86.1 million shares of the Company's common stock valued at US$812 million.

The offer represented a premium for Wellington shareholders of approximately 25 per cent to the closing middle market price of 97.25 pence per Wellington share on 23 October 2006, the last business day prior to the announcement that Catlin and Wellington were in discussions. The offer represented a premium for Wellington shareholders of approximately 31 per cent to the average Wellington share price over the one-month period prior to 24 October 2006, the day that it was announced that Catlin and Wellington were in discussions.

Prior to the acquisition, Wellington conducted its underwriting activities through:

- The management by Wellington Underwriting Agencies Limited of Syndicate 2020, and its participation on Syndicate 2020 through the Wellington corporate members (the Wellington Group's participation on Syndicate 2020 amounted to 67 per cent for the 2006 year of account). In December 2006, Lloyd's approved the cessation of Syndicate 2020 and its operations have been combined with those of the Catlin Syndicate (Syndicate 2003) for the 2007 year of account.
- Wellington Underwriting Inc., an underwriting agency in the United States which underwrote or introduced insurance and reinsurance business to Syndicate 2020.
- Wellington Specialty Insurance Company, a non-admitted insurer in the United States which underwrites specialty casualty and non-catastrophe property insurance for US commercial clients.

The projected benefits of the acquisition include:

- **A major expansion of Catlin's operating platforms**. Following the amalgamation with Syndicate 2020, the Catlin Syndicate is the largest syndicate at Lloyd's for the 2007 underwriting year with a total premium capacity of £1.25 billion. Catlin Bermuda is expected to grow through further underwriting opportunities and increased intra-Group reinsurance cessions. Catlin UK will develop further through writing business classes also underwritten by Wellington.
- **The accelerated development of Catlin's US business**. The acquisition of Wellington advances Catlin's existing expansion plans in the US. The addition of Wellington's US operations enhances the depth of the underwriting staff and the range of products offered by Catlin US. It has also strengthened Catlin US's infrastructure.
- **Further diversification of Catlin's underwriting operations**. The Wellington acquisition broadens Catlin's already diversified underwriting portfolio by adding new classes of business and additional non-catastrophe risk. In addition, Wellington brings a strong reputation for underwriting skill, and the addition of Wellington's underwriting staff will strengthen the Group.
- **A strengthened balance sheet**. Catlin's greater financial resources arising from 2006 results and the acquisition are a positive factor for clients, brokers and shareholders. At 31 December 2006, investments and cash increased by 111 per cent per cent to US$5.01 billion (31 December 2005: US$2.37 billion), whilst stockholders' equity increased by 117 per cent to US$2.02 billion (31 December 2005: US$931.1 million).

Preben Prebensen
Chief Investment Officer

The acquisition is now expected to be earnings accretive in 2007 after projected restructuring and retention costs, and significantly earnings enhancing in 2008 and subsequent years following the projected realisation of not less than US$70 million in annualised synergies. The projected synergies include:

— **Reinsurance synergies**, which are expected due to greater diversification and therefore reduced reinsurance need, and economies of scale. There is considerable scope for reinsurance synergies in the light of the Group's US$500 million expenditure for reinsurance in 2006.
— **Tax synergies**, which are expected through the maintenance of capital in Bermuda. For 2006 Wellington produced pre tax income of US$245 million and had a tax rate of 30.8 per cent. Catlin's tax rate for 2006 was 6.0 per cent and it is expected that Catlin's tax rate over time will average 12 per cent to 15 per cent.
— **Operating synergies**, which are expected to stem from scale efficiencies, including headcount savings and consolidation of information technology, professional services and office costs. As at 28 February 2007, there have been 47 agreed employee departures and 31 resignations since the offer was declared unconditional, producing an annualised saving of US$9 million. In addition, the Group has reduced by 150 employees the recruitment previously projected separately by Catlin and Wellington, which will produce an estimated annualised cost saving of US$14 million. The combination of premises is expected to produce an additional annualised saving of US$6 million.
— **Investment synergies**, which are expected as a result of increased portfolio size and optimisation of risk-adjusted returns.

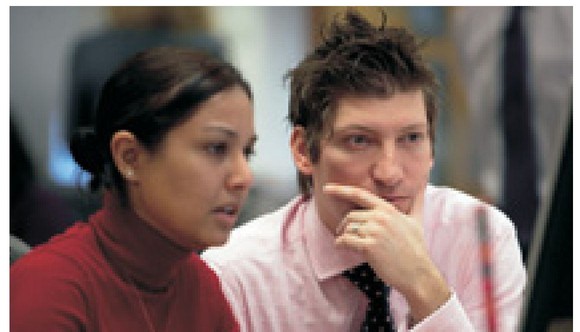
Catlin has owned 100 per cent of the capacity of the Catlin Syndicate since 2003 and believes that full ownership of syndicate capacity provides significant benefits. Accordingly, concurrent with the acquisition and through the cessation of Syndicate 2020, Catlin in effect removed the third-party capacity and combined the Wellington and Catlin Syndicates. As a result, the Group owns 100% of the capacity of the enlarged Catlin Syndicate for 2007. Some of the third-party capacity that previously supported Wellington Syndicate 2020 participates on a quota share reinsurance of Catlin Syndicate for 2007 (and will do so for 2008). The quota share reinsurance comprises £156 million of Catlin Syndicate's total premium capacity of £1.25 billion.

In December 2006, after the offer was declared unconditional, Lloyd's granted permission for Syndicate 2020 to cease as at 31 December 2006.

Catlin entered into a US$500 million bridge financing facility which was used to finance the cash element of the acquisition of Wellington, together with part of the consideration paid to the third-party capital providers to Syndicate 2020. On 18 January 2007 Catlin Insurance Company Ltd. issued US$600 million of non-cumulative perpetual preferred shares and used a portion of the proceeds of this issue to repay the bridge facility.

US$70m

The acquisition is expected to produce post-tax synergy benefits of at least US$70 million in 2008.



Underwriting Review

Any discussion of Catlin's underwriting performance in 2006 must first look back to 2005, the worst year for natural catastrophe losses on record. The global insurance industry's aggregate natural catastrophe losses – including losses from Hurricanes Katrina, Rita and Wilma – exceeded US$100 billion in 2005. The 2005 loss experience followed what had also been a record year for natural catastrophe losses in 2004.

Rates for catastrophe exposed coverages – both direct and reinsurance – rose significantly during 2006. Weighted average premium rates for catastrophe exposed classes of business underwritten by Catlin rose 31 per cent during 2006, compared with a 3 per cent decrease in weighted average premium rates for non-catastrophe exposed classes. Overall, weighted average premium rates across Catlin's risk portfolio increased by 6 per cent in 2006 (2005: 1 per cent decrease). Rate adequacy was strong in the vast majority of the classes of business that Catlin underwrites.

This strong rate environment and the relatively benign catastrophe experience during 2006 can be seen in the Group's loss ratio of 51.4 per cent (2005: 71.1 per cent).

It is unknown whether the low frequency and severity of catastrophe losses in 2006 was an aberration or represents a return to more normal loss levels compared with the previous two years. However, Catlin is taking a cautious view and managing its risk portfolio on the basis that catastrophe losses in future years could again equal or exceed the levels seen in 2004 and 2005.

Whilst gross premiums written for catastrophe exposed classes of business increased in 2006 because of the strong rating environment, the Group's aggregate catastrophe exposure was reduced. Throughout 2006, Catlin reduced its exposure to catastrophe risk, so that if loss experience in 2006 had been similar to the previous year's, the company's ROE would have been significantly higher than was achieved in 2005. Catastrophe risk was reduced through a combination of increased attachment points, reductions in the maximum limits offered and smaller line sizes for certain risks.

Catlin maintains that this cautious strategy is the correct one. Whilst the Group could have written a significantly greater volume of catastrophe business in 2006 – and would have made a greater profit had it done so because of the benign conditions – the potential downside was simply too great for Catlin to accept. This underwriting strategy limits both the upside and downside risk presented by catastrophe business, which we consider a prudent course of action.

In addition to reducing our aggregate exposure to catastrophe risk, Catlin continued to seek additional streams of non-catastrophe business to balance its portfolio. The Catlin Syndicate began writing three new classes of business in 2006: US general liability insurance, international casualty treaty reinsurance and crisis management, which comprises product recall and kidnap & ransom insurance. The development of Catlin US, which generally writes non-catastrophe exposed classes of business, accelerated in 2006. Catlin Bermuda expanded its political risk and terrorism portfolio. We increased the amount of business written through our international offices and opened new offices in Hong Kong and Calgary in 2006 and in Paris, Barcelona, Zurich and Innsbruck in early 2007.

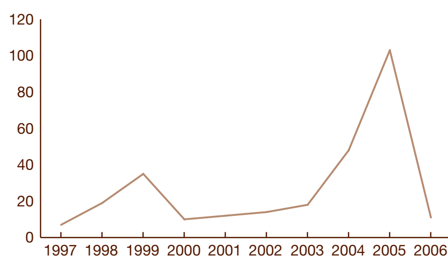
2007 outlook

Rates for catastrophe exposed business throughout 2007 will depend greatly on catastrophe experience during the year. Average weighted premium rates for catastrophe exposed business renewing in January 2007 increased by 5 per cent. For other classes of business we are expecting modest rate reductions across the portfolio during 2007. Average weighted premium rates for non-catastrophe business decreased by 3 per cent in January 2007. Overall, average weighted premium rates for all classes of business increased by 1 per cent in January 2007.

The acquisition of Wellington substantially strengthens Catlin's underwriting operations. The two companies underwrote complementary portfolios, and the overlap of business written is less than was initially anticipated. Catlin will benefit from greater risk diversification and an increase in the strength and depth of underwriting teams.

With the addition of Wellington, Catlin now has the size, the track record, the client base and the reputation to be a true leader in the specialty insurance and reinsurance market.

Insured worldwide natural catastrophe losses – 1997-2006 (US$bn)



Source: Swiss Re/Sigma

Paul Brand
Chief Underwriting Officer

Reinsurance programme
Catlin purchases reinsurance to limit and spread its exposure, to protect against catastrophe losses and in some instances to increase underwriting capacity. Catlin primarily purchases non-proportional protections, although the programme includes elements of proportional and facultative reinsurance. When purchasing reinsurance Catlin aggregates many of its risks across the Group in order to leverage its purchasing power. Catlin typically centralises its reinsurance purchases across the Group with the exception of facultative reinsurance, which is purchased against individual risks to cover specific exposures or to reduce the impact of gross line sizes.

The Group evaluates the financial condition of its reinsurers and potential reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. To qualify as acceptable security, reinsurers must have a minimum financial strength rating of 'A' from Standard & Poor's or 'A-' from A.M. Best.

The reinsurance programme in effect from 1 January 2007 covers both Catlin and the former Wellington operations from that date.

For the 2007 and 2008 Lloyd's years of account, certain third parties who had previously provided capital to Wellington Syndicate 2020 participate on a whole account quota share reinsurance of the Catlin Syndicate. For 2007, the quota share treaty comprises £156 million, part of Catlin Syndicate's premium income capacity of £1.25 billion.

In addition to third-party reinsurance, Catlin Bermuda writes intra-Group reinsurance for other Catlin underwriting platforms (see page 37).

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

The catastrophe swap responds to covered catastrophe risk events during a three-year period. No payment will be made for the first three such risk events. Bay Haven will pay Catlin Bermuda £33.375 million per covered risk event thereafter, up to a maximum of six events. The categories of risk events covered by the transaction include US hurricanes, California earthquakes, US Midwest earthquakes, UK windstorms, European windstorms, Japanese typhoons and Japanese earthquakes. Coverage will be triggered if aggregate industry losses as estimated by Property Claims Services exceed defined amounts for US events. For non-US events, coverage is triggered if specific parametric criteria are met or exceeded.

Catlin Bermuda subsequently entered into two further catastrophe swap agreements with the London Branch of ABN AMRO Bank N.V. which will respond to the third covered risk event.

The catastrophe swap is regarded as an innovative yet economical means to provide protection to the Group in the event of a series of major catastrophes. Whilst the catastrophe swap is similar to a reinsurance transaction, it is treated as a derivative financial instrument for accounting purposes.

Business Segments

Catlin divides its business into four segments for further analysis:

- **Catlin Syndicate Direct**, which comprises direct insurance business underwritten by the Catlin Syndicate at Lloyd's;
- **Catlin Syndicate Reinsurance**, which comprises reinsurance business underwritten by the Catlin Syndicate;
- **Catlin Bermuda**; and
- **Catlin UK.**

Catlin Bermuda primarily underwrites reinsurance business, including intra-Group reinsurance. Catlin UK primarily underwrites direct insurance.

As all business produced by Catlin US prior to the acquisition of Wellington was written as a coverholder on behalf of the Catlin Syndicate and Catlin UK, this business – which amounted to approximately US$30 million – is included in the appropriate Catlin Syndicate segments or the Catlin UK segment.

Comparisons of the premiums written and combined ratios of the segments in 2006 and 2005 are shown in the tables below:

2006 US$m	Premiums written including Intra-Group reinsurance	Intra-Group reinsurance	Premiums written excluding Intra-Group reinsurance	Combined ratio including Intra-Group reinsurance	Combined ratio excluding Intra-Group reinsurance
Catlin Syndicate Direct	**836,312**	**–**	**836,312**	**91.6%**	**86.3%**
Catlin Syndicate Reinsurance	**270,308**	**–**	**270,308**	**105.0%**	**92.6%**
Catlin Bermuda	**728,755**	**(529,611)**	**199,144**	**80.6%**	**66.1%**
Catlin UK	**299,255**	**–**	**299,255**	**97.8%**	**106.4%**
Intra-Group Reinsurance	**(529,611)**	**529,611**	**–**	**–**	**–**
Total	**1,605,019**	**–**	**1,605,019**	**88.2%**	**88.2%**

2005 US$m	Premiums written including Intra-Group reinsurance	Intra-Group reinsurance	Premiums written excluding Intra-Group reinsurance	Combined ratio including Intra-Group reinsurance	Combined ratio excluding Intra-Group reinsurance
Catlin Syndicate Direct	698,841	–	698,841	85.7%	87.2%
Catlin Syndicate Reinsurance	278,450	–	278,450	136.4%	143.9%
Catlin Bermuda	566,805	(389,625)	177,180	114.1%	109.7%
Catlin UK	232,129	–	232,129	88.8%	88.7%
Intra-Group Reinsurance	(389,625)	389,626	–	–	–
Total	1,386,600	–	1,386,600	103.1%	103.1%

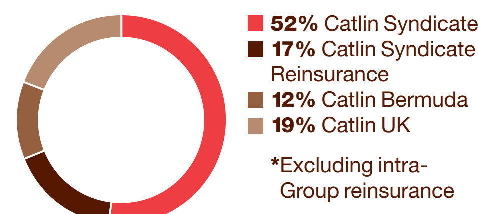
Gross premiums written by Catlin's two non-Lloyd's business segments – Catlin Bermuda and Catlin UK – represented 57 per cent of the Group's gross premiums written in 2006 (2005: 53 per cent). Excluding intra-Group reinsurance these 'corporate' segments accounted for 31 per cent of gross premiums written (2005: 30 per cent).

Gross premiums written increased in all business segments in 2006 with the exception of Catlin Syndicate Reinsurance, where gross premiums written decreased by 2.9 per cent.

57%

Gross premiums written by Catlin Bermuda and Catlin UK represented 57 per cent of the Group's total volume including intra-Group reinsurance.

Gross premiums written by segment in 2006 (%)*



Catlin Syndicate

The Catlin Syndicate at Lloyd's (Syndicate 2003), long regarded as one of the most successful syndicates in the marketplace, is now also the largest in terms of premium capacity.

Following the acquisition of Wellington Underwriting plc in December and the cessation of its managed Syndicate 2020, the capacity of Catlin Syndicate was increased to £1.25 billion, including quota share reinsurance capacity. Syndicate 2003 had a premium capacity of £480 million for 2006. In practical effect, the businesses of the two syndicates were merged.

The acquisition of Wellington and the effective combination of Syndicate 2020 with the Catlin Syndicate does much more than create the market's largest syndicate. It dramatically expands the Catlin Syndicate's profile in the marketplace. Following the Wellington acquisition, the Catlin Syndicate:

- is able to offer larger lines on larger risks;
- writes a wider range of business classes, including accident and health insurance;
- has the ability to lead more of the business it underwrites;
- has become a major participant in most market segments; and
- most importantly, has significantly increased its depth of underwriting talent.

Catlin's London-based underwriting staff was increased by nearly 100 employees upon completion of the Wellington acquisition. The morning after the acquisition was declared unconditional, the Wellington underwriting staff moved to Catlin's new 2,000 square metre London underwriting floor. David Ibeson, who had been Chief Executive of Wellington Underwriting Agencies Limited, became Deputy Chief Executive of the Catlin Syndicate, working closely with Chief Executive Paul Jardine. Matthew Yeldham, who had been a Wellington Underwriting Director, was appointed Deputy Underwriter of Syndicate 2003, assisting Active Underwriter Nicolas Burkinshaw.

During 2006, the Catlin Syndicate wrote US$1.1 billion in gross premiums, a 13 per cent increase over the previous year (2005: US$977.3 million). Direct premiums written by the Syndicate increased by 20 per cent to US$836.3 million (2005: US$698.8 million), reflecting both advantageous market conditions in property and energy classes as well as significant amounts of new business written in several classes, including general liability and aviation. Gross reinsurance premiums written by the Syndicate decreased 3% to US$270.3 million (2005: US$278.5 million). The decrease was largely due to the Group's decision to concentrate property catastrophe risk underwriting in Bermuda.

During 2006, the Syndicate established three new classes of business, all of which are uncorrelated with property catastrophe exposures:

- US general liability insurance;
- Crisis management, which includes product recall and kidnap & ransom insurance; and
- International casualty treaty reinsurance, which focuses on non-US business.

Significant growth is expected in all three classes of business in 2007.

Catlin is an active member of the 'G6' group of Lloyd's underwriting agencies which has assumed a leadership position in advocating reforms in the marketplace. The G6, of which Wellington was also a member, has been a driving force behind several important projects which will increase efficiency in the Lloyd's market. The projects include a 'peer to peer' electronic trading platform between brokers and managing agents that allows information required for placement slips to be fed directly between participants' back office data systems.

Paul Jardine
Chief Operating Officer,
Catlin Group Limited, and
Chief Executive, Catlin Syndicate

Catlin Bermuda

Gross premiums written by Catlin Bermuda (excluding intra-Group reinsurance) grew for the fourth consecutive year in 2006, increasing 12 per cent to $199.1 million (2005: US$177.2 million).

Since it began underwriting in 2002, Catlin Bermuda has developed a multi-disciplinary team of professionals and has forged strong relationships in the brokerage community. Catlin Bermuda continues to develop its position as a leading participant in the Bermuda market, underwriting a diversified portfolio of property treaty, casualty treaty, political risk and terrorism insurance business. In addition, a structured risk team provides bespoke products to clients seeking assistance in managing the volatility associated with higher retained exposures, particularly in classes where there is an imbalance between supply of and demand for capacity.

In 2006 Catlin Bermuda significantly strengthened its property treaty resources, adding several experienced underwriters and catastrophe modelers to further develop its worldwide portfolio of business and to take advantage of favourable market conditions. Whilst the additional resources allow Catlin Bermuda to write larger lines and become an increasingly important quoting market, it also took prudent steps to manage its aggregate exposures in line with Catlin Group's underwriting strategy.

Catlin Bermuda is also a quoting market for casualty treaty reinsurance. Nearly all classes of US business are underwritten, including medical malpractice, lawyers' professional liability, nursing home liability, municipal liability, auto liability and general liability, on both a per risk and clash basis. Catlin Bermuda is a lead market in providing protection to captives, mutual insurers and other Risk Retention Groups, and Catlin Bermuda underwriters frequently speak at industry conferences and broker sponsored events.

During 2006 Catlin Bermuda expanded its political risk and terrorism underwriting team to participate in the growing market for these classes of business in Bermuda. In the latter part of the year, Catlin Bermuda introduced a terrorism insurance and reinsurance product that provides coverage for losses caused by a nuclear, chemical, biological or radiological ('NCBR') terrorist attacks. Many insurers and reinsurers have been reluctant to offer coverage for NCBR incidents due to the potential aggregation of exposure associated with this risk. The Catlin Bermuda product fills this gap in the marketplace by offering capacity on a location-specific basis, limiting Catlin's aggregate exposure to an individual NCBR incident but still providing the client with much-needed coverage. Clients include workers' compensation insurers, and increasing interest is coming from large corporations.

Catlin Bermuda, which holds a large proportion of the Group's capital, provides reinsurance protection to the other Catlin underwriting platforms. Total gross premiums written, including intra-Group reinsurance, increased 29% in 2006 to US$728.8 million (2005: US$566.8 million), reflecting increases in both the business originated by the Bermuda platform and the Group's overall premium volume. Catlin Bermuda's combined ratio, including the effects of intra-Group reinsurance, decreased to 80.6 per cent in 2006 (2005: 114.1 per cent), reflecting the favourable loss experience of both Catlin Bermuda and the Catlin Group as a whole.

Graham Pewter
President and Chief Executive,
Catlin Bermuda

Catlin UK

Catlin UK writes two categories of business.

- Specialty classes of insurance that are also underwritten by the Catlin Syndicate, particularly aviation and aerospace coverages; and
- Property and casualty insurance underwritten for commercial clients in the UK. This business is produced both through London market brokers and smaller, regional brokers in the UK.

Gross premiums written by Catlin UK increased by 29 per cent in 2006 to US$299.3 million (2005: US$232.1 million).

During 2006, Catlin UK continued to expand the UK commercial business underwritten through its network of regional offices, and premium volume produced by these offices exceeded management's expectations. A new office in Tonbridge, serving the Southeast region, was opened, joining existing regional offices in Glasgow, Leeds, Derby, Birmingham and Watford. During the year, the professional staff in the Glasgow and Leeds offices was strengthened.

In developing its regional distribution network, Catlin UK prefers to build relationships with a small number of brokers regarded as among the top-quality producers in each region. To strengthen its relationships with these brokers, Catlin UK for the first time in 2006 participated in major brokerage events including the British Insurance Brokers Association ('BIBA') conference, the Scottish BIBA conference and the Birmingham Insurance Expo.

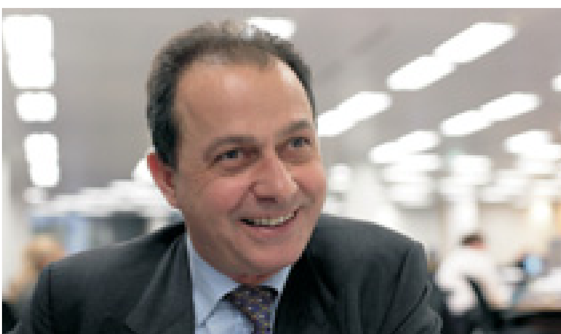
Catlin UK's regional strategy focuses on five classes of business:

- Professional indemnity;
- Commercial property;
- General liability;
- Commercial crime; and
- Directors' and officers' liability.

Catlin UK seeks to provide service of the highest calibre to both regional and London market brokers. To further improve this service, a long-term project was completed in February 2007 that fully automates Catlin UK's processing capabilities, from the initial quotation to the production of full policy documentation. The process has been at first applied to five types of professional indemnity insurance products and will be expanded to other classes in the future. This process will not only improve broker service but also lower processing expenses.

Commercial market conditions for these five classes of business remained competitive in the UK market during 2006. Whilst Catlin UK could have written a greater volume of premium in these classes, it maintained underwriting discipline and rejected business whose rates or terms were not sufficient. The decision by several UK insurers to increase motor insurance rates during the second half of the year could be an indication that conditions in the overall UK market may improve during 2007.

Two exceptional losses impacting the satellite book of business underwritten by Catlin UK had a substantial impact on the results of the segment. The losses, which together amounted to approximately US$34 million, added 14.9 percentage points to Catlin UK's combined ratio of 106.4 per cent excluding intra-Group reinsurance (2005: 88.7 per cent).



Andreas Loucaides
Chief Executive, Catlin UK

Catlin US

Catlin US, the Group's newest underwriting platform, encompasses all of the company's operations in the United States. Catlin US was established during the past year to take advantage of attractive prospects that exist in the US commercial insurance market, the world's largest, that would not be available to a Bermuda or UK-based company. In addition, Catlin US further diversifies the Group's risk portfolio by underwriting specialty property and casualty risks for US clients that are largely uncorrelated with US catastrophe-exposed business already written by the Catlin Syndicate and Catlin Bermuda.

Catlin US offers clients and their brokers Catlin's strong culture of disciplined, technical underwriting, a broad risk appetite, a wide variety of insurance and reinsurance products, and a strong capital base. Catlin US operates from 15 offices with a staff of more than 150 employees.

Catlin US combines the US-based operations that Catlin has built during the past eight years with the US insurance and reinsurance units that Wellington had developed. Prior to the acquisition of Wellington, Catlin had begun building Catlin US into a significant operation, beginning with offices in Houston and New Orleans which Catlin had acquired in 1999. During the year, Catlin opened new offices in Atlanta, which became Catlin US's headquarters, and New York.

Catlin US has assembled a strong management team, led by Richard Banas, president and chief executive officer, who joined the Group in April. Since then, Catlin US has recruited a management team of experienced insurance professionals, all with extensive experience in a wide range of disciplines such as finance, claims, actuarial science, law, IT, human resources and operations.

Two new specialties were created by Catlin US during 2006 to complement the book of medical malpractice insurance that has been written from Catlin's Houston office for several years. In July, Catlin US recruited an underwriting team based in the New York office who write various classes of professional liability and directors' & officers' liability insurance. The professional liability classes include coverage for financial institutions, real estate agents, lawyers, accountants and other professionals. In September, Catlin US recruited a separate team of underwriters who specialise in writing a diverse book of primary and excess casualty insurance for US policyholders on a nationwide basis. Catlin US plans to add more teams underwriting new classes of specialty products during 2007.

Altogether, these three specialties generated approximately US$30 million in gross premiums written in 2006. This business was written on behalf of the Catlin Syndicate at Lloyd's and Catlin UK.

Catlin US's operations were expanded in December following the Wellington acquisition. Wellington's US operations, which wrote approximately US$275 million in gross premiums in 2006 and employed more than 115 people, consist of two units: Wellington Underwriting Inc., a reinsurance intermediary and underwriting manager that had written business on behalf of Wellington's Syndicate 2020, and Wellington Specialty Insurance Company, a non-admitted carrier that had written specialty property and casualty coverages for US businesses. Both companies are being rebranded under the Catlin banner.

The classes of business underwritten by the two Wellington units include:

- Treaty and facultative property and inland marine reinsurance for US insurance companies, written on both a brokerage and direct basis;
- Accident and health reinsurance, including workers' compensation, personal accident and medical stop-loss coverages;
- Specialty casualty insurance underwritten by Wellington Specialty for a variety of small to medium size US businesses; and
- Commercial property, casualty and inland marine insurance underwritten by Wellington Specialty on a binding authority basis through a network of managing general agents.

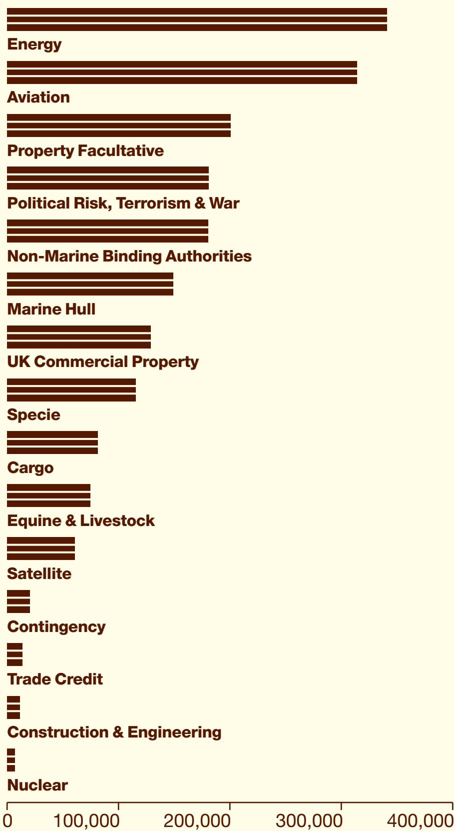
In addition to Wellington Specialty, Catlin in May 2006 purchased a shell admitted insurance company that is currently licensed in more than 30 states. Catlin Insurance Company Inc. will become operational during 2007, giving Catlin US the ability to issue policies on US paper on both an admitted and a non-admitted basis.

Richard Banas
President and CEO, Catlin US

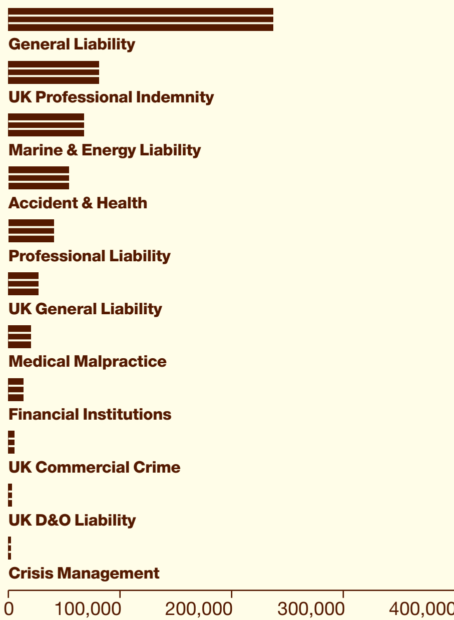
Business Classes

Catlin underwrites more than 30 classes of business. The charts below – which show gross premiums written by business class – are based on an unaudited pro forma aggregation of the operations of Catlin and Wellington for the year ended 31 December 2006:

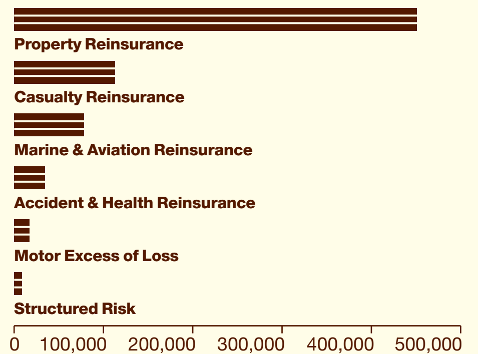
Property Direct (2006 GPW: US$1.38 billion)



Casualty Direct (2006 GPW: US$643 million)



Reinsurance (2006 GPW: US$697 million)



David Ibeson
Deputy CEO, Catlin Syndicate

Financial Review

The following pages contain commentary on Catlin's consolidated financial statements for the year ended 31 December 2006, which are prepared in accordance with US Generally Accepted Accounting Principles ('US GAAP').

The commentary also includes an unaudited pro forma income statement for the year ended 31 December 2006. This unaudited pro forma statement is prepared through the aggregation of the consolidated results of operations of Catlin together with the results of operations of Wellington Underwriting plc for the period from 1 January 2006 to the date of acquisition. The acquisition of Wellington was declared unconditional on 18 December 2006. Because the effect of trading from 19-31 December 2006 was immaterial to Catlin's consolidated results, the acquisition date for accounting purposes was 31 December 2006.

Set out below are the Consolidated Results of Operations as reported by Catlin. Because the Wellington acquisition date for accounting purposes was 31 December 2006, these are Catlin's stand-alone results.

Consolidated Results of Operations (as reported)

US$000	**2006**	2005	% change
Revenues			
Gross premiums written	**1,605,019**	1,386,600	16
Reinsurance premiums ceded	**(194,896)**	(197,501)	(1)
Net premiums written	**1,410,123**	1,189,099	19
Change in unearned premiums	**(84,262)**	27,343	(408)
Net premiums earned	**1,325,861**	1,216,442	9
Net investment income and change in fair value of derivatives	**104,668**	82,147	27
Net realised losses on investments	**(17,041)**	(1,520)	1,021
Net realised (losses)/gains on foreign currency	**38,746**	(13,791)	381
Other income	**3,528**	741	376
Total revenues	**1,455,762**	1,284,019	13
Expenses			
Losses and loss expenses	**681,549**	865,285	(21)
Policy acquisition costs	**341,531**	305,539	12
Administrative expenses	**130,703**	61,865	111
Other expenses	**26,562**	23,665	12
Total expenses	**1,180,345**	1,256,354	(6)
Income before income taxes	**275,417**	27,665	896
Minority interest	**(22)**	–	–
Income tax expense	**(16,606)**	(8,003)	107
Net income	**258,789**	**19,662**	**1,216**
Loss ratio[1]	**51.4%**	71.1%	
Expense ratio[2]	**36.8%**	32.0%	
Combined ratio[3]	**88.2%**	103.1%	
Tax rate[4]	**6.0%**	28.9%	
Return on average equity[5]	**24.2%**	2.1%	

1 Calculated as losses and loss expenses divided by net premiums earned
2 Calculated as the total of policy acquisition costs, administrative expenses and other expenses, less financing and amortisation expenses, divided by net premiums earned
3 Total of loss ratio plus expense ratio
4 Calculated as income tax expense divided by income before income taxes
5 Calculated as net income divided by the weighted average of opening and closing stockholders' equity.

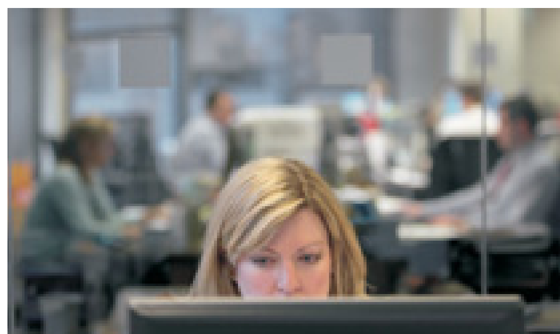
Christopher Stooke
Chief Financial Officer

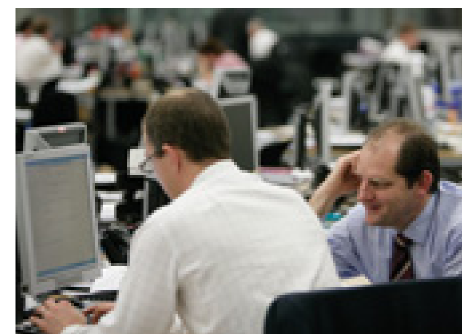
For the purposes of the preparation of the unaudited pro forma statement, the results of Wellington's operations are presented in accordance with US GAAP.

Included below are pro forma adjustments to combined net income, calculated as if the acquisition had been in place for the duration of 2006, as required by US GAAP. These adjustments include amortisation on acquired intangible assets, the value of the quota share reinsurance provided by some of Wellington's former third-party capacity providers and the value of in-force business acquired, as well as interest expense in respect of the US$500 million bridge financing facility, which has now been repaid.

Consolidated Results of Operations (Pro Forma)

US$000	Wellington (unaudited)	Catlin (as reported)	Pro forma Catlin Group (unaudited)
Revenues			
Gross premiums written	1,116,781	1,605,019	2,721,800
Reinsurance premiums ceded	(203,643)	(194,896)	(398,539)
Net premiums written	913,138	1,410,123	2,323,261
Change in unearned premiums	(10,837)	(84,262)	(95,099)
Net premiums earned	902,301	1,325,861	2,228,162
Net investment income and change in fair value of derivatives	80,178	104,668	184,846
Net realised gains/(losses) on investments	20,542	(17,041)	3,501
Net realised (losses)/gains on foreign currency	(7,544)	38,746	31,202
Other income	37,212	3,528	40,740
Total revenues	1,032,689	1,455,762	2,488,451
Expenses			
Losses and loss expenses	431,844	681,549	1,113,393
Policy acquisition costs	199,183	341,531	540,714
Administrative expenses	144,315	130,703	275,018
Other expenses	12,250	26,562	38,812
Total expenses	787,592	1,180,345	1,967,937
Income before income taxes	245,097	275,417	520,514
Minority interest	–	(22)	(22)
Income tax expense	(75,405)	(16,606)	(92,011)
Combined net income	**169,692**	**258,789**	**428,481**
Pro forma adjustments:			
Amortisation of intangible assets, value of quota share and value of in-force, net of tax			8,388
Interest on bridge loan			(28,234)
Pro forma net income			408,635
Ratios on Combined Basis			
Loss ratio	47.9%	51.4%	50.0%
Expense ratio	38.1%	36.8%	37.3%
Combined ratio	86.0%	88.2%	87.3%
Tax rate	30.8%	6.0%	17.7%
Return on average equity	22.4%	24.2%	23.8%





Business Review continued

Gross premiums written
On a pro forma basis gross premiums written in 2006 increased by 15 per cent to US$2.72 billion. Both Catlin and Wellington benefited from the positive rating environment following the 2005 hurricane losses, with Catlin's gross premiums written increasing by approximately 16 per cent and Wellington's increasing by a slightly lower percentage.

The largest increases in premium written for both companies were experienced in the hurricane-impacted classes of business, particularly property treaty reinsurance written by Catlin Bermuda, the Catlin Syndicate Reinsurance segment and by Wellington Syndicate 2020. The energy, marine facultative and marine excess of loss business written by both the Catlin Syndicate and Wellington Syndicate 2020 showed significant increases in premium volume. The growth in gross written premium across these classes was achieved as a result of the strong rating environment, notwithstanding the reductions in exposure to catastrophe exposed classes implemented by both Catlin and Wellington.

Gross written premium growth was also achieved in non- catastrophe exposed classes. Catlin's general liability and aviation accounts both experienced significant growth driven by recruitment of new staff, including staff in international offices, and attractive market conditions. Wellington also reported growth as a result of the recruitment of new underwriting teams for new classes of business, particularly US casualty and non-marine liability.

Reinsurance
Both Catlin and Wellington experienced reductions in premiums ceded to reinsurers, which were increased in 2005 by reinstatement costs resulting from the large catastrophe loss experience in that year. Reinsurance costs as a percentage of gross premiums written have fallen to 12 per cent for Catlin (2005: 14 per cent) and to 18 per cent for Wellington (2005: 24 per cent). Both companies experienced savings in overall reinsurance costs: for Catlin the savings represented approximately US$3 million or 1 per cent; the savings for Wellington amount to US$30 million or 13 per cent.

Net premiums earned
Growth in earned premiums tends to lag growth in written premiums. Accordingly for Catlin, growth in net premiums earned was lower than the growth in net premiums written at 9 per cent. As previously noted Wellington made a 13 per cent savings in reinsurance costs in 2006, which is reflected in a 21 per cent increase in net premiums earned.

Losses and loss expenses
The 2005 underwriting year was significantly impacted by the three large hurricanes – Katrina, Rita and Wilma – which together produced US$333.5 million in net losses and loss expenses for Catlin and US$328.2 million for Wellington in the 2005 calendar year. The 2006 year had no similar large loss activity and this is reflected in substantial decreases in losses and loss expenses for both companies. This has also resulted in a decrease in the loss ratio to 51.4 per cent for Catlin (2005: 71.1 per cent); on a pro forma basis the consolidated loss ratio was slightly lower at 50.0 per cent.

Catlin experienced a number of relatively large losses during 2006, particularly two satellite losses which combined amounted to more than US$30 million and a large motor liability reinsurance loss (relating to a prior accident year) which has been reserved at US$29 million.

The 2005 hurricane losses remain a source of claims volatility and there is still some uncertainty in respect of the nature and amount of the underlying losses which will impact the Group's reinsurance accounts. Both Catlin and Wellington have strengthened reserves during 2006 in respect of these losses: Catlin by US$52 million and Wellington by US$50 million. The relatively high incidence of specific losses which relate to accident years prior to 2006 has absorbed general releases from previous years' reserves such that overall Catlin has strengthened prior years' reserves by US$2 million. Wellington has released prior years' reserves of US$19 million, net of the deterioration in respect of the 2005 hurricanes and, taken together, there has been a small release of US$17 million.

Expense ratio
Catlin's expense ratio increased to 36.8 percent (2005: 32.0 per cent). Included in the expense ratio is approximately 25.8 percentage points which relates to policy acquisition costs; for Catlin this is broadly unchanged compared with 2005. On a pro forma basis the expense ratio stood at 37.3 per cent; policy acquisition costs represented 24.3 percentage points of the overall expense ratio.

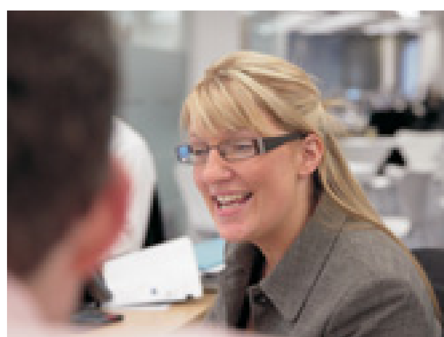
The increase in administration and other expenses is primarily a result of investment in Catlin US and the Group's international offices; investment in information technology, particularly in theFrame, Catlin's proprietary underwriting management system and data warehouse; and higher awards granted under the performance share scheme and higher bonus payments to staff, both of which are based on consolidated return on equity.

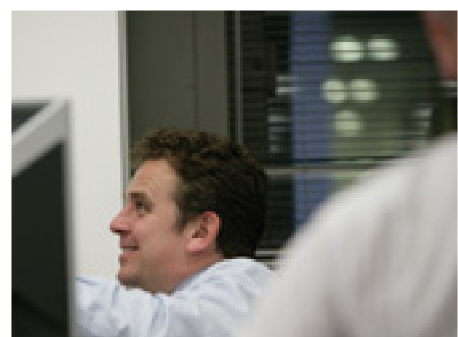
Wellington's administrative and other expenses also increased, largely reflecting certain one-off costs including the cost of projects which were terminated following the acquisition by Catlin and additional costs resulting from the early vesting of employee stock options.

The expense ratio includes all head office costs and excludes financing and amortisation expenses.

US$2.72bn

On a pro forma basis, gross premiums written increased by 15 per cent to US$2.72 billion.





Net investment income and net realised gains/(losses) on investments

US$000	2006 unaudited pro forma consolidated	2006	2005
Total investments and cash as at 31 December	5,013,709	**2,722,580**[1]	2,371,360
Net investment income and change in fair value of derivatives	184,846	**104,668**	82,147
Net realised gains/(losses) on investments	3,501	**(17,041)**	(1,520)
Net unrealised (losses)/gains on investments	1,643	**1,643**	(29,015)
	189,990	**89,890**	51,612
Realised return on average investments	4.1%	**3.5%**	3.6%
Total return on average investments	4.1%	**3.5%**	2.3%

[1] Represents legacy Catlin investments only, on which the reported return was earned. Total investments and cash as reported in the balance sheet is US$5.01 billion.

For Catlin, the 2005 total investment return was depressed by significant unrealised losses on investments caused by rises in US interest rates during that year. During 2006 certain of those losses have been realised following a review of investment managers and a resulting rebalancing of portfolios. This has slightly depressed the realised return in 2006. In overall terms, after taking account of unrealised gains, returns showed a significant improvement over 2005 with interest rates and other valuation effects being quite small.

Net investment income also includes the change in the fair value of the catastrophe swap entered into by Catlin Bermuda, a charge of US$619,000.

The Wellington return for 2006 is higher than Catlin's, at 5.3 per cent, resulting particularly from the shorter duration of its fixed income securities as well as diversification in equities and hedge funds of funds.

Net realised gain/(loss) on foreign currency exchange

During 2006 Catlin realised a gain on foreign exchange of US$38.7 million (2005:US$13.8 million loss). The sterling-US dollar exchange rate rose to 1.96 at year-end 2006 (31 December 2005: 1.72). representing a 14 per cent strengthening of sterling against the US dollar. During 2005, the US dollar had strengthened by 10 per cent against sterling. Gains largely resulted from Catlin's US dollar reporting operations holding sterling assets during the year.

Wellington had a realised loss on exchange of US$7.5 million, primarily resulting from losses on currency sales.

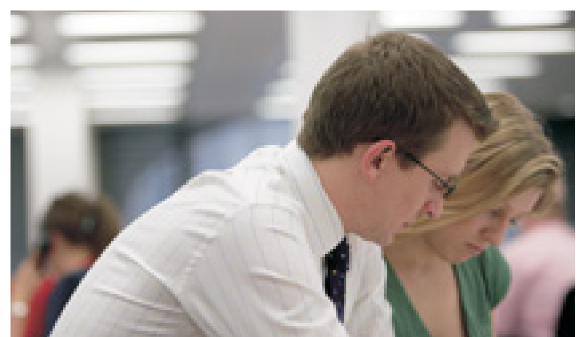
Income tax expense

Catlin's income tax expense increased 108 per cent to US$16.6 million (2005: US$8.0 million), whilst the effective tax rate has fallen to 6.0 per cent (2005: 28.9 per cent).

The effective tax rate is lower than the Group's expected rate of 12 to 15 per cent over the course of an underwriting cycle because profitable business was ceded to Catlin Bermuda. The Catlin Syndicate and Catlin UK recorded net losses during the year, after intra-Group reinsurance. The Catlin Syndicate losses occurred due to losses from prior years that were not covered by intra-Group reinsurance. The Catlin UK loss was the result of two large satellite claims which caused a loss for the year even after intra-Group reinsurance.

During 2005 the opposite effect occurred, when losses were ceded to Catlin Bermuda through intra-Group reinsurance, leaving profits in the Catlin Syndicate and Catlin UK, which caused the Group's tax rate to exceed the expected rate.

Most of Wellington's profits arose in UK entities and its effective tax rate is close to the UK corporate tax rate.



Balance sheet
The balance sheet at 31 December 2006 incorporates the net assets of Wellington which were acquired as at the year end. The fair value of the assets acquired is reflected in the balance sheet in accordance with US GAAP requirements.

US$000 (except share amounts)	**2006**	2005	% change
Investments and cash	5,013,709	2,371,360	111
Securities lending collateral	130,854	–	–
Intangible assets and goodwill	868,026	63,639	1,264
Premiums and other receivables	987,768	565,500	75
Reinsurance recoverable	1,238,852	629,269	97
Value of in-force business acquired	118,384	–	–
Deferred acquisition costs	144,063	126,738	14
Other assets	304,662	103,477	194
Loss reserves	(4,005,133)	(1,995,485)	101
Unearned premiums	(1,290,379)	(663,659)	94
Notes payable	(550,290)	(50,000)	1,000
Subordinated debt	(99,936)	–	–
Other liabilities	(710,697)	(219,758)	223
Securities lending payable	(130,854)	–	–
Minority interest	(749)	–	–
Stockholders' equity	2,018,280	931,081	117
Stockholders' equity per share (US$)[1]	US$8.07	US$5.97	35
Stockholders' equity per share (sterling)[1]	£4.12	£3.47	19

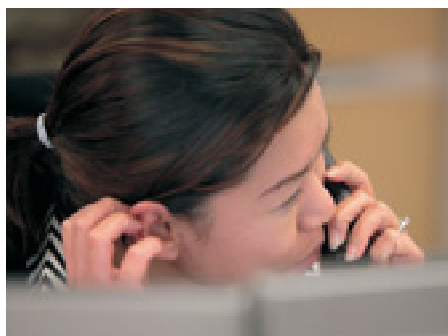
1 Calculated based on issued share capital at 8 March 2007 of 250.0 million shares.

The chart below shows the principal components of the change in stockholders' equity during the year:

US$000	
Stockholders' equity, 1 January 2006	931,081
Equity raise, March 2006	64,881
Net income	258,789
Equity issued to acquire Wellington	812,427
Stock compensation and other	11,000
Treasury shares acquired	(6,600)
Dividends declared	(48,607)
Change in other comprehensive income	(4,691)
Stockholders' equity, 31 December 2006	2,018,280

Investments and cash
Investments and cash increased by 111 per cent to US$5.01 billion (2004:US$2.37 billion). Included in this amount are US$2.29 billion in investments and cash in the acquired Wellington balance sheet. In addition to cash generated from operations, cash resources were increased by US$65 million through the issue of equity in March 2006.

The Group continued to maintain a conservative investment philosophy, with the majority of assets invested in a portfolio of fixed maturities, short-term investments and cash. At 31 December 2006, the fixed maturities were all high quality, primarily with ratings of AA or higher. The Wellington portfolio includes assets with a market value of US$233 million invested in diversified investment funds.



117%

Stockholders' equity increased 117 per cent to US$2.02 billion.

Securities lending
In early 2006 the Group entered into a securities lending arrangement, through which certain of its fixed maturity investments are loaned to third parties through a lending agent. Catlin 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% of the market value of the loaned securities; this is monitored and maintained by the lending agent.

Intangibles and goodwill
Intangibles and goodwill have increased by US$804 million due to the acquisition of Wellington at the end of the year. Goodwill arising on the transaction is US$69 million. The following intangible assets have been created:

- Purchased Lloyd's syndicate capacity (US$716 million)
  - This represents the capacity that Wellington owned on acquisition as well as the capacity acquired by Catlin from Wellington's third-party capital providers. The element acquired by Catlin as part of the cessation of Syndicate 2020 is valued at US$250 million.
  - This asset will have an indefinite life and, as such, will not be amortised but will be subject to annual impairment tests.
- Distribution network (US$5 million)
  - This represents the value of the customer and broker networks after allowing for an assumed rate of attrition and will be deducted from the syndicate capacity amount above. Catlin already has access to similar networks in Lloyd's, but there is value in the Lloyd's distribution network from a market participant's point of view.
  - This asset will be amortised over its estimated useful life of five years.
- Surplus lines licenses (US$ 6 million)
  - This represents the value of the surplus lines licenses acquired.
  - This asset will be amortised over its estimated useful life of five years.

Under US GAAP Catlin is required to establish a liability for deferred taxation in relation to the value of intangible assets and goodwill arising on the acquisition. This liability is included in 'other liabilities' and amounts to US$127 million.

In May 2006 the Group acquired American Indemnity Company, a shell insurance company in the United States which will write admitted business for the Group. As part of the acquisition, the Group acquired approvals by states to write surplus lines business which are valued at $3 million. These intangible assets are also included in this balance.

Reinsurance recoverable
Included in this amount are reinsurance recoverables of US$805 million in the acquired Wellington balance sheet. Wellington historically relied on reinsurance to a greater extent than Catlin. The composition and quality of reinsurers used by Wellington are comparable to those used by Catlin.

The legacy Catlin reinsurance recoverable, which included the deposit with reinsurer, has decreased by US$196 million compared with the prior year. The 2005 balance reflected the anticipated recoveries from reinsurers due to the hurricane losses incurred in the second half of 2005. There is no deposit with reinsurer balance in the 2006 figures as all recoveries have now been made under this contract.

Premiums and other receivables
Included in this amount are receivables of US$339 million in the acquired Wellington balance sheet. Legacy Catlin premiums and other receivables have increased by US$83 million compared with the prior year, reflecting the higher levels of premiums written during 2006.

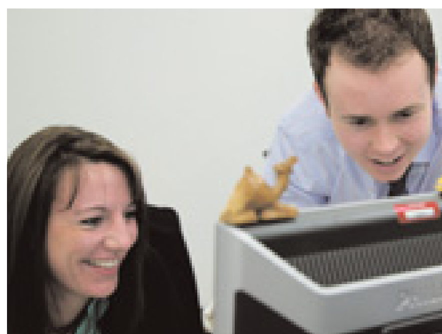
Value of in-force business acquired
As part of the Wellington acquisition, the legacy Wellington deferred acquisition costs have been written off and have been replaced by an asset that represents the value of the business acquired. The establishment of this asset, which represents the profit embedded in the unearned premiums carried on the Wellington balance sheet, is required under US GAAP. It will be amortised to net income in line with the earning of the related unearned premium.

Deferred acquisition costs
Deferred acquisition costs as a percentage of unearned premiums was 11 per cent (31 December 2005: 19 per cent). However, including the value of in-force business acquired, which effectively replaced deferred acquisition costs on Wellington's acquisition balance sheet, this percentage is comparable to the previous year at 20 per cent.

Loss reserves
Gross loss reserves have approximately doubled to US$4.00 billion (2005:US$2.00 billion), including US$2.03 billion assumed at fair value upon the acquisition of Wellington. For both companies the level of gross loss reserves has fallen over 2006, reflecting steady settlement of losses arising from the 2005 hurricanes. Notwithstanding this, approximately 44 per cent of the gross reported losses in respect of Hurricane Katrina remain unpaid. Loss reserves continue to be held at levels which are conservative relative to the range of estimates of both internal actuaries and independent advisors.

US$**5.01bn**

Investments and cash increased by 111 per cent to US$5.01 billion.



Unearned premiums

Unearned premiums have increased by approximately 94 per cent to US$1.29 billion (31 December 2005:US$664 million), including US$492 million assumed on the acquisition of Wellington. The growth in unearned premiums reflects growth in net written premiums during 2006.

Cash and capital management

Intra-Group reinsurance

The use of intra-Group reinsurance is central to the management of the Group's capital. The Group seeks to maintain economic capital within Catlin Bermuda to the maximum extent possible and to manage the insurance risk portfolio on a Group basis, regardless of the underwriting platform which originally underwrites the risk. The intra-Group contracts which cede risk from the Catlin Syndicate and Catlin UK to Catlin Bermuda have been renewed during the year, and contracts have also been put in place to cede Catlin US risk to Bermuda when Catlin US commences underwriting for its own account. These arrangements will also be effective in ceding former Wellington Syndicate risk to Catlin Bermuda: Wellington Syndicate 2020 ceased operations effective 31 December 2006, with the business formerly written by Syndicate 2020 now underwritten by the Catlin Syndicate.

Cash and liquidity

A summary of the growth in cash and invested assets is shown in the table below.

US$000	
Total cash and investments, 1 January 2006	2,371,360
Operating cash	121,192
Dividends paid	(48,751)
Acquisition of Wellington, net of cash and investments acquired	1,970,942
Bridge financing facility	500,000
Other	98,966
Total cash and investments, 31 December 2006	5,013,709

Gearing and banking facility

The Group's banking arrangements were largely unchanged from 2005 up to the acquisition of Wellington. To assist with the financing of that transaction, Catlin entered into a US$500 million bridge financing facility which was used to finance the cash element of the acquisition of Wellington, together with part of the consideration paid to the third-party capital providers to the Wellington syndicate in accordance with the syndicate cessation arrangement. The cost of this facility was LIBOR plus 45 basis points.

On 18 January 2007 Catlin Insurance Company Ltd. ('Catlin Bermuda') issued US$600 million of non-cumulative perpetual preferred shares. Interest is payable at 7.249 per cent. The proceeds of this issue were primarily used to repay the bridge financing facility. These preferred shares represent regulatory capital for Catlin Bermuda and innovative Tier I capital.

The Group has renegotiated its bank facility to meet the needs of the combined Group. This includes the following three elements:

- A US$50 million revolving credit facility. This was fully drawn at 31 December 2006 but was repaid following completion of the preferred share issue referred to above.
- A £275 million (US$539 million) unsecured letter of credit facility. £225 million of this facility is currently drawn and used to provide part of the Funds at Lloyd's supporting the underwriting of the Group's operations at Lloyd's.
- A US$350 million standby letter of credit facility which is used by Catlin Bermuda and Catlin UK to secure outstanding claim and unearned premium balances as necessary for trading in, for example, the US. There is approximately US$110 million outstanding on this facility.

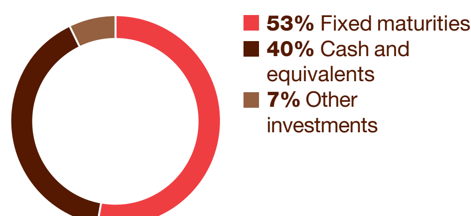
During 2006 Wellington issued a total of US$68 million and €18 million variable rate unsecured subordinated notes. The interest payable on the notes is based on market rates for three-month deposits in US dollars plus a margin of up to 317 basis points. The notes, which are redeemable in 2011 at the earliest, qualify as lower Tier II capital under UK Financial Services Authority regulations. The proceeds were primarily used to provide funding for Syndicate 2020.

The gearing reflected on the balance sheet arising from this financing represents 32 per cent (31 December 2005: 5 per cent) of stockholders' equity. After the preferred share issue in January 2007, gearing has fallen to 4 per cent.

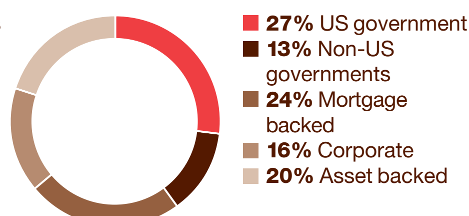
Foreign currency management

US dollars account for the majority of the Group's cash flows. A significant part of the remaining cash flows are in sterling; the Group also maintains euro and Canadian dollar funds. Management of foreign currency exposures is primarily focused on analysis and matching of expected cash flows; derivatives or other financial instruments have not been utilised by Catlin during the year. Forward purchases and sales of currency are used when currency needs are identified. Wellington undertook forward currency and other currency derivative transactions during the year.

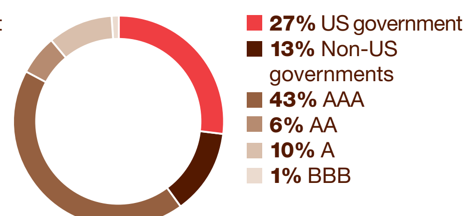
Total investments and cash US$5.01 billion



Fixed maturities US$2.67 billion



Fixed maturities US$2.67 billion



Other capital management
Group capital adequacy is measured against Catlin's economic capital model which measures required capital against a series of 1 in 200 year scenarios. This complies with European and US regulatory requirements, although the Group holds capital in excess of regulatory minima. The model calculates capital requirements having regard to underwriting, reserving, credit, market, investment and operational risk. The model is regularly updated as part of the Group's planning process.

Catlin Bermuda, Catlin UK and the Catlin Syndicate have financial strength ratings of 'A' (Excellent) by A.M. Best Company, while Wellington Specialty Insurance Company is rated 'A-' (Excellent). The Catlin Bermuda and Catlin UK ratings from A.M. Best are currently under review with negative implications. Catlin anticipates that this review will be resolved in the first half of 2007. During 2006, Catlin Bermuda and Catlin UK received insurer financial strength ratings of 'A-' (Strong) by Standard & Poor's.

The non-cumulative perpetual preferred shares issued by Catlin Bermuda are rated 'bbb' by A.M. Best Company and 'BBB' by Standard & Poor's.

Reconciliation to IFRS
The Group's consolidated financial statements are prepared in accordance with US GAAP, which differs in certain respects from International Financial Reporting Standards ('IFRS').

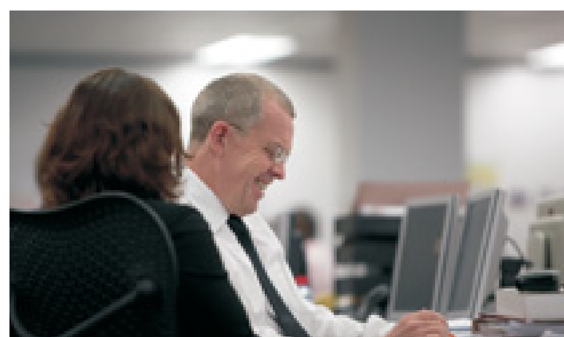
The following statements summarise the material adjustments, gross of their tax effect, which reconcile the net income and stockholders' equity under US GAAP to the amounts which would have been reported had IFRS been applied.

		Year ended 31 December	
Net income (US$000)	Note	**2006**	2005
Net income under US GAAP		258,789	19,662
Adjustment for:			
Change to single functional currency	(a)	(50,052)	5,275
Exchange (losses)/gains on foreign currency bond portfolios	(b)	(4,240)	3,662
Fair value of employee stock compensation	(c)	(99)	(99)
Recognition of payroll taxes on employee stock compensation	(d)	(371)	(1,826)
Taxation	(e)	16,429	(2,319)
Net income under IFRS		220,456	24,355

		Year ended 31 December	
Stockholders' equity (US$000)	Note	**2006**	2005
Stockholders' equity under US GAAP		2,018,280	931,081
Adjustment for:			
Change to single functional currency	(a)	(10,388)	(9,387)
Fair value of employee stock compensation	(c)	(310)	(241)
Recognition of payroll taxes on employee stock compensation	(d)	(1,981)	(1,721)
Stockholders' equity under IFRS		2,005,601	$919,732

US$1.29bn

Unearned premiums have increased by 94 per cent to US$1.29 billion.



a) Under US GAAP, an entity is permitted to have more than one functional currency, if certain criteria are met. The Catlin Syndicate meets these criteria and therefore operates with multiple functional currencies. Under IFRS, the revised IAS 21 became effective on 1 January 2005. Although multiple functional currencies were allowed under the former IAS 21, the revised standard prohibits multiple functional currencies within an entity. The new IAS 21 has been applied prospectively, and this reconciling item shows the net effect of moving the Catlin Syndicate from four functional currencies to sterling as the sole functional currency.

b) Certain of the Group companies hold fixed income investments in foreign currencies, which are intended to mitigate exposures to foreign currency fluctuations in net liabilities. Under US GAAP, changes in the value of such investments due to foreign currency rate movements are reflected as a direct increase or decrease to stockholders' equity. Under IFRS, such changes are included in the statement of operations.

c) Under US GAAP, options issued under an employee stock compensation scheme when the Company is privately-held may be valued assuming no expected volatility (the minimum value method). Under IFRS, a volatility assumption must be made in valuing stock-based compensation issued after 7 November 2002, even if the Company is privately-held. This reconciling item represents the fair value of employee stock options issued after 7 November 2002, recalculated with an expected volatility assumption reflecting the historical volatility of the Group's listed peers.

d) Under US GAAP, a liability for payroll taxes arising from stock compensation is recognised when the amount is due to the taxing authority, for example on the exercise of stock options. Under IFRS, a liability must be recorded at the date of grant, based on the market value of the underlying security. This liability should be subsequently adjusted for movements in the market value of the underlying security.

e) All of the net income reconciling items are presented before tax. This line item represents the tax effect of all the reconciling items.

Distribution

Virtually all of Catlin's business is produced by more than 100 retail and wholesale insurance brokers worldwide, including many smaller specialty and regional brokers. The diversity and strength of Catlin's broker relationships create a robust distribution network for the Group.

A breakdown of the Catlin Group's 2006 gross premiums written on a percentage basis by its top ten brokers is set out below:

Percentage of gross premiums written produced by largest brokers in 2006

Broker	%
Marsh	13.6%
Aon	13.0%
Willis	10.8%
JLT	8.2%
Benfield	6.9%
Denis M Clayton	2.3%
HSBC	2.1%
Miller	2.1%
Heath Lambert	2.0%
BMS Group	1.9%

The top five brokers accounted for approximately 53 per cent of Catlin's gross premiums written in 2006.

International network of offices

Catlin has established a network of international offices as part of its strategy to broaden its distribution network and to further diversify its risk portfolio. The international offices allow Catlin to develop local insurance products using local underwriters, which creates closer relationships with local brokers and the policyholders. During 2006, US$106 million of gross premiums were written by the international offices, an increase of 120 per cent (2005: US$48 million).

Catlin establishes offices where the Group identifies quality teams of underwriters who can build books of business that complement the specialty classes that the Group underwrites. These teams are selected on the basis of their track records and their ability to respond to the Catlin Culture, including the ability to underwrite business within the strict controls that Catlin demands.

Catlin's international offices wrote US$106 million in gross premiums in 2006.

Newly established offices often write only a single class of business because that is where the initial opportunity exists. Over time, the classes of business underwritten by an office can be expanded in line with the Group's underwriting strategy.

The Group's international offices (not including UK, US and Bermuda offices) are listed in the table below, with the year they were established and the classes of business currently underwritten:

Office	Year Established	Classes Underwritten
Singapore	1999	Property, Marine Hull, Cargo, Construction, Aviation, Property Reinsurance, Specie (including Fine Art and Jewellers' Block), Energy and Terrorism
Kuala Lumpur	1999	Energy, Aviation, Casualty
Cologne	2003	Specie (including Cash in Transit and Fine Art), Marine Hull, Cargo, Aviation, Contingency, Terrorism
Sydney	2004	Aviation, Casualty, Specie (including Fine Art), Terrorism, Property Reinsurance
Antwerp	2005	Contingency, Marine Hull, Cargo
Guernsey	2005	Aviation
Toronto	2005	Property, General Liability, Marine Hull, Cargo, Construction & Engineering, Aviation
Hong Kong	2006	Property, Marine Hull, Cargo, Terrorism
Calgary	2006	Aviation
Barcelona	2007	Cargo
Innsbruck	2007	Cargo
Paris	2007	Cargo, Contingency
Zurich	2007	Liability, Construction & Engineering

Binding authorities and third-party coverholders
Catlin delegates underwriting authority for specific classes of business to a third-party 'coverholder' under a contractual agreement. 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 a coverholder. 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.

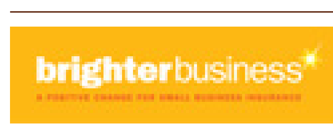
The Catlin Syndicate is a leader in the Lloyd's binding authority business, particularly in US-based surplus lines property binding authorities, although Catlin's other underwriting platforms also participate in binding authorities. Approximately 20 per cent of Catlin's gross premiums written in 2006 were written on a binding authority basis. During 2006 Catlin had more than 600 binding authority agreements in place.

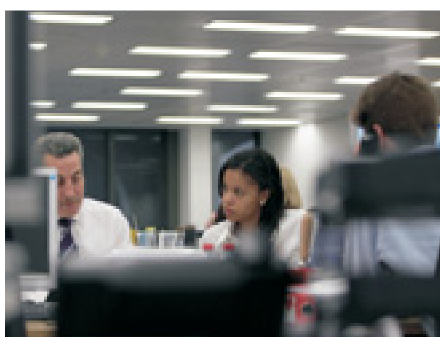
Binding authorities require careful management. Catlin places a strong emphasis on the selection, management and monitoring of its coverholders and has established a dedicated team to oversee and review current and prospective coverholders. The team's main goal is to ensure that all coverholders underwriting business on behalf of Catlin comply with the Group's rigorous processes and controls.

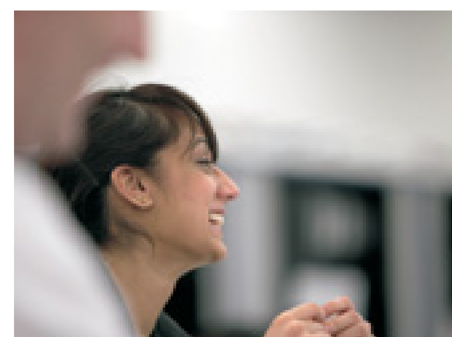
Brighter Business Limited
In June 2006 a Catlin subsidiary assumed a majority interest in Brighter Business Limited, a new Lloyd's coverholder specialising in selling non-life insurance to small businesses, including sole traders and owner-managed enterprises, in the United Kingdom.

Brighter Business commenced limited trading in August 2006, marketing through a dedicated internet site, trade publications and direct mail. The company plans to increase its operations during 2007. The coverage is underwritten by Brighter Business on a binding authority basis on behalf of the Catlin Syndicate.

The investment in Brighter Business offers Catlin the opportunity to diversify its risk portfolio further, as this business segment has not previously been targeted by the Group.







Claims

Claims represent Catlin's largest expense. Claims also pose the greatest threat to Catlin's relationships with its clients.

Catlin's claims strategy addresses these sometimes conflicting issues. Catlin's claims philosophy is to protect the interests of clients through the handling of claims swiftly and fairly. Catlin believes that this philosophy best protects the interests of all stakeholders.

Catlin's worldwide claims team operates according to a professional services model that results in the delivery of focused, specialised services through:

- The maintenance of long-term relationships with clients, brokers and outside advisors;
- The use of specialist teams which focus on specific types of risks and claims. This approach helps deliver superior outcomes;
- An experienced, professional claims staff with diverse backgrounds;
- Bespoke systems and processes, including case management techniques;
- A reserving philosophy and methodology that aims to ensure reserve accuracy and consistency; and
- Close relationships between claims staff, underwriters and actuarial staff to ensure that pricing, business forecasting and reserving is carried out accurately and in a timely fashion. These relationships are central to Catlin's claims success.

Catlin's claims staff, which includes more than 75 professionals (including former Wellington employees), delivers outstanding results to internal and external stakeholders, and this adds to the Group's competitive advantage.

A 2005 survey by Gracechurch Consulting ranked Catlin's claims team within the top echelon of London Market underwriters in terms of claims service. In particular, brokers across all classes of business praised the team's excellent quality of service, accessibility and speed of response as being superior to most other insurers.

Operational Support

High quality underwriting is only possible if a company has superior systems, controls, procedures and other forms of operational support. During 2006 Catlin continued to consolidate its operational support infrastructure into a Group Operations Department, a process that started the previous year. Centralisation of these functions is designed to ensure underwriting excellence and consistency across the Group.

A key component of Catlin's support for underwriters is theframe, Catlin's proprietary underwriting system and data warehouse, and the Group continues to invest in theframe's development. theframe provides a single database to all Catlin underwriters, allowing them to share information about risks and to develop a consistent, Group-wide approach to underwriting. Much of the information entered into theframe is input in Catlin's Kuala Lumpur office, which reduces costs and enables uniform data entry standards and high data quality.

Group Operations is responsible for ensuring the underwriters use best practices and follow agreed Group standards. During the past year, a team of Group Operations employees has implemented 'contract certainty' standards across the Catlin Group to ensure that details regarding a policy, including wordings and signed lines, are finalised before coverage begins. The Group has exceeded the contract certainty targets laid out by the UK Financial Services Authority.

Over the past year, Catlin has established a Group Project Management Office and implemented an 'end to end' project management framework, which provides structure and guidance to all IT and other projects across the Group. The framework efficiently allocates resources, prioritises projects and monitors activities so that projects are completed on schedule and on budget.

Nick Sinfield
Group Claims Director

Risk Management

Catlin has established a formal risk management programme to analyse its risk profile and adopt appropriate risk mitigation strategies. Risk identification, assessments and control reviews are updated and refreshed regularly to ensure that risk management adapts to changing conditions and that risk mitigation is continuously strengthened.

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

The chief executive of each underwriting platform is responsible for developing and executing a strategy and business plan subject to the approval of the Group's Chief Executive, the Group's Board of Directors and the platform's own board. In managing an underwriting platform's operations, the chief executive is responsible for identifying and managing the risks to the platform's objectives. The platform CEO is charged with establishing and ensuring compliance with appropriate policy, procedures and other controls that reflect Group policy and procedures and with all applicable external regulatory requirements.

Risk management framework
Under the direction of the CRO, the Group conducts a regular formal risk assessment process within each of its underwriting platforms. The level of risk and the effectiveness of the controls are assessed by management and reviewed by the CRO and the risk team. The risk and control assessments are updated quarterly.

The risk team works together with actuarial staff to review and assess the residual risk remaining following the application of the mitigating controls. The team uses various models including sophisticated stochastic modelling to quantify the capital needed to support the Catlin Group's risk within the risk appetite determined by the Board. They further evaluate capital requirements through stress and scenario tests. The results of this modelling are included in the reports to the Group's Board of Directors as part of the annual planning discussions.

Each platform prepares a formal document annually that details the platform's risk governance, policies and controls, risk assessment, capital requirements and other aspects of a comprehensive risk management programme.

Management of insurance risk
The Catlin Group Underwriting Board and the underwriting committee of each underwriting platform are responsible for overseeing the Catlin Group's underwriting operations. The Underwriting Board develops an annual underwriting plan for the consideration of platform and Group management and approval by the Group Board of Directors and platform boards. The Underwriting Board monitors and reports on the performance against that plan on a quarterly basis by platform and by class of business. The platform underwriting committees conduct monthly reviews of underwriting results.

Underwriting is conducted in accordance with rigorous technical analytic protocols set by the Underwriting Board. This includes defined underwriting authorities, guidelines by class of business, actuarial pricing models, rate monitoring, pre- and post- underwriting peer reviews, and a single Group-wide underwriting system.

Catlin also utilises the RMS™ risk model in respect of certain natural catastrophe exposures alongside its own internal catastrophe models. Modelling is done as part of the underwriting and pricing of individual accounts that present significant catastrophe exposure. Aggregate exposure is also extensively modelled and tested against severe threat scenarios to ensure conformance with Group risk appetite and alignment with reinsurance programmes and underwriting strategies.

Janet Nelson
Chief Risk Officer

Binding authority arrangements are an important part of Catlin's business and present particular operational risk to the Group. Catlin has established a dedicated binder management team that oversees pre-appointment reviews and ongoing annual reviews, including periodic on-site third-party audits. The terms of the binding authority appointment are subject to peer review and compliance with those terms. Underwriting performance is monitored both by individual underwriters and the binder management team.

The Catlin Group Head of Claims directs claims operations across the Catlin 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.

Underwriting and claims systems and procedures are supported and monitored by the Group Operations Board. This Board reports to the Group Chief Operating Officer. The Group Chief Underwriting Officer and the Group Head of Claims are each responsible for identifying the risks to their respective operations and for ensuring that the Group is capable of managing those risks.

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

Management of investment risk
All Catlin Group and subsidiary assets are managed by the Group Chief Investment Officer, under the direction of the Investment Committee of the Board of Directors. The broad investment strategy adopted by the Board is focused on capital preservation and, in that context, on maximising return while maintaining a low-risk portfolio. Investment management has been outsourced to professional fund managers selected by the Investment Committee and approved by the Board. The performance of these managers is monitored by the Chief Investment Officer and the Investment Committee.

Management of credit risk
The major credit risk to which the Group is exposed is the risk in recovering reinsurance. The Group's Reinsurance Security Committee, chaired by the Group Chief Financial Officer, manages this risk for the Group. This committee establishes security standards applicable to all reinsurance purchases and monitors the financial status of all reinsurance debtors. A centralised team executes the reinsurance collection process.

Management of liquidity risk
The Chief Investment Officer monitors cash flow and manages liquid assets and debt facilities to ensure that cash is available to meet obligations and platform operational liquidity needs.

Management of operational risk
The Chief Executive Officer of each underwriting platform and Group heads of function are responsible for managing operational risk. Each is required to establish and adhere to appropriate operational policies and procedures.

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

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

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

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

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

The Audit Committee or the full Board receives reports from the outside auditors, internal auditors and the external actuaries at least once a year. The Audit Committee also regularly meets those parties in private sessions, at which management and executive directors are not present. Through its Compensation Committee, the Board reviews human resources policy and the remuneration of senior staff.

Employees and Culture

In the increasingly competitive market in which Catlin operates, the Group's success depends on the skill and talent of its employees. Catlin continually seeks to recruit bright, talented people and give them the tools they require to perform to the highest standards possible.

Catlin has nurtured a corporate culture that is designed to bring out the best in its employees. The culture is based on the following values:

- **Disciplined underwriting.** Catlin's priority is to produce a bottom line underwriting profit rather than simply generate top line growth.
- **An open and transparent working environment.** Open communication and transparency are encouraged, both in internal working and when dealing with clients and brokers. The free and open exchange of information and ideas is critical to the way Catlin does business, and wherever possible offices are designed with open layouts to encourage communication.
- **A 'Group' mentality.** Catlin employees are instructed to act in the best interest of the Group as a whole, not their own underwriting platform or department. Employees are encouraged to share information and to ensure that individual risks are underwritten by the most appropriate platform. Bonus and incentive programmes are based on Group, not departmental, results to reinforce this mentality.
- **Integrity and ethical behaviour.** Catlin expects its employees to conduct themselves in a manner which reflects the highest ethical standards. Catlin employees are judged not only on the results they achieve, but also on the means by which they achieve them. The Group has adopted a Code of Ethical Conduct, with which all employees are required to comply.
- **Fairness and mutual respect.** Catlin is committed to ensuring that all employees are treated with dignity and respect and that employees' contributions are recognised and valued.

Through the Group's culture, individual employees are given significant, formally defined responsibility for business decisions. A comprehensive control framework is in place to ensure that decisions made by underwriting and non-underwriting employees are reviewed appropriately.

Employees attend regular departmental or team meetings at which corporate developments and business strategy are discussed. During these meetings, employees are encouraged to make observations and ask questions. During 2006 the Group established an intranet that provides work-related information and facilitates communications across all Catlin offices worldwide.

Headcount

At 31 December 2006, Catlin had a staff of approximately 1,000 people.

Equal opportunities

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

The Group seeks at all times to comply with legislation governing non-discrimination in employment and 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.

Lesley Denekamp
Group Head of Human Resources

Business Review continued

Remuneration
Catlin has developed a remuneration strategy which rewards employees for their performance and achievements and allows Catlin to retain and recruit the high-calibre staff the Group requires. Basic salaries are determined based on employees' contributions to the Group's success, their qualifications and their seniority. Salaries are reviewed at the end of each year, with increases based in part on achievement of personal goals, inflation and relative compensation levels throughout the Group.

Bonus arrangements and share compensation plans for senior staff and Executive Directors are discussed in the Directors' Remuneration Report on page 57.

Training and development
Catlin is committed to the training and development of all employees. Catlin invests heavily in training and career development to ensure that employees have the necessary technical knowledge and expertise to excel in a results-focused environment. Employees are offered a variety of flexible solutions, tailored to individuals and delivered both internally by dedicated training staff and technical specialists, and externally by professional training providers.

All new Catlin employees undertake an induction programme shortly after joining the company. The programme is designed to introduce employees to the Catlin Culture, provide an overview of the organisation and establish a solid foundation for a successful career with Catlin. The induction also offers employees with no previous insurance experience an opportunity to learn about the insurance industry through our own technical experts.

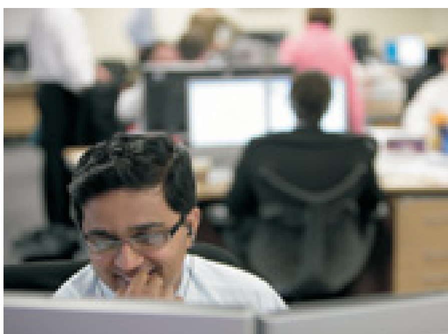
To ensure all staff achieve and maintain the required level of competence, Catlin employees are encouraged, where appropriate, to attend a variety of technical training events to meet both personal and business needs, including internal seminars, external training courses and industry conferences.

Catlin actively encourages professional and support staff to attain relevant professional qualifications. The Group sponsors employees undertaking insurance, actuarial, accounting and other role-specific examinations. A study support policy is in place, and the Group rewards the attainment of such qualifications.

While technical competence is of the utmost importance, Catlin recognises that other skills are also central to achieving business objectives and personal development. Catlin offers employees training sessions on topics such as presentation skills, time management and negotiation skills. This skill-based training is designed to assist staff to become even more effective in their day to day activities and to ensure they develop a wide breadth of skills and competencies.

Catlin is conscious that training and development is a continuous and evolving need for all employees, regardless of seniority. We offer tailored management training to support and develop staff with more senior or managerial roles and responsibilities.

Disabled persons
The Group gives full and fair consideration to applications for employment made by disabled persons, and provides training and career development where appropriate. If an employee were to become disabled whilst employed, the Group would make arrangements, insofar as possible, to continue employment or to provide training for another suitable position.



1,000

Catlin had a staff of approximately 1,000 people as at 31 December 2006.

Corporate Social Responsibility

The Board of Directors recognises the importance of high standards of corporate social responsibility, considers the social, environmental and ethical implications of the Group's operations, and has adopted policies and procedures to reflect its responsibilities to its stakeholders.

Environmental

The Group's operations as an insurer do not impact the environment to the same extent as many other companies. Nevertheless, the Group is committed to achieving best practice in the areas in which it does have an environmental impact. For example, the Group operates a comprehensive document scanning system which 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. The Group strives to minimise energy consumption through the use of automatic light controls that switch off lights when employees are not at their desks.

The Group during 2006 upgraded its video conferencing capabilities in London, Bermuda and the United States. Catlin encourages employees, where possible, to conduct both internal and external meetings via video conference rather than travel.

Ethical

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 over the past several years relevant policies and procedures. In particular, the Board has adopted the Catlin Code of Ethical Conduct (available on the Group's website), which codifies 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.

Other matters reviewed and/or adopted during the period include share dealing and inside information guidelines, a whistleblowing policy, anti-fraud and anti-money laundering policies, and broker remuneration guidelines.

The Board recognises that to maintain an ethically aware corporate culture requires not just policies and procedures, but more importantly leadership by example, and it, together with executive management, strives to achieve that goal.

Health and safety

The Group strives to ensure the health, safety and welfare of its employees at work and of others 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.

Community involvement and charitable donations

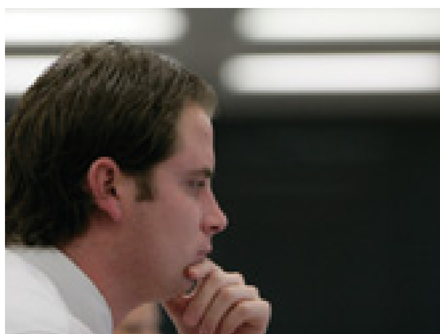
The Group encourages employee involvement in community programmes.

In London, where the majority of the Group's employees are located, Catlin is a member company of the Lloyd's Community Programme ('LCP'), which provides educational, training and other forms of support to residents of Tower Hamlets and other East London boroughs. The Group encourages employees to participate in the LCP. A retired Catlin senior executive served as Chairman of the LCP during 2006.

The Group has historically provided 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, and other executives contribute time to the charity. During 2006, the Group sponsored the Catlin Insurance Challenge as part of the London Triathlon to encourage triathletes working in the insurance sector to raise funds for the Sick Children's Trust and other charities.

In Bermuda, Catlin contributes to numerous charities and community development concerns.

The Group made charitable donations of US$101,137 during the year.



The Board of Directors

Sir Graham Hearne
Chairman
Sir Graham Hearne was appointed Chairman of Catlin in February 2003. He was 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 in New York. 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 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 Seascope Group plc and Stratic Energy Corporation and Deputy Chairman of Gallaher Group plc. He was High Sheriff of Greater London 1995 to 1996. Age 69

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. In 1982 he became Deputy Underwriter, specialising in the excess of loss and energy accounts where he was supported as a market leader. He founded Catlin Underwriting Agencies Limited in 1984 and was the Active Underwriter of Syndicate 1003 and later Syndicate 2003 until May 2003. From September 1996 to January 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 May 2000 until January 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. Age 52

Christopher Stooke
Chief Financial Officer
Christopher Stooke joined the Group as Chief Financial Officer in March 2003 after a 24-year career with Price Waterhouse and PricewaterhouseCoopers, where he was a partner from 1990. He specialised in financial services, particularly insurance, holding leadership positions in London and Zurich. He is a Fellow of the Institute of Chartered Accountants in England and Wales. Age 49

Alan Bossin
Independent Non-Executive Director
Alan Bossin was appointed as an Independent Non-Executive Director of Catlin in March 2004. He is counsel to Appleby Spurling Bailhache, 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 55

Michael Crall
Independent Non-Executive Director
Michael Crall was appointed as an Independent 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 also Non-Executive Chairman of Arrowpoint Capital Corp. Age 63

Jean Claude Damerval
Independent Non-Executive Director
Jean Claude Damerval was appointed as an Independent 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. Age 63

Michael Eisenson
Non-Executive Director
Michael Eisenson was appointed as a Non-Executive Director of Catlin in November 2002. He is also Managing Director and Chief Executive Officer of Charlesbank Capital Partners LLC, a Boston-based private equity firm. Prior to co-founding Charlesbank, he was the President of Harvard Private Capital Group, the private equity and real estate investment unit of Harvard Management Company. He also served with The Boston Consulting Group, a corporate strategy consulting firm. He serves on the boards of several public companies, including United Auto Group, Playtex Products, Animal Health International and Caliper Life Sciences, as well as several privately held portfolio companies. Age 51

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 and BBA Aviation plc as well as a Non-Executive Director of Umeco plc and Ricardo plc. Age 62

Richard Haverland
Independent Non-Executive Director
Richard Haverland was appointed as an Independent Non-Executive Director of Catlin in October 2003. He was previously Chairman, President and Chief Executive Officer of Highlands Insurance Group Inc. in Houston, Texas. He also was a partner and consultant with Insurance Partners, a private equity fund; Vice Chairman and Chairman-Elect of Continental Corporation; Executive Vice President of American Premier Underwriters Inc.; Executive Vice President of Great American Insurance Company; and President and Chief Operating Officer of The Progressive Company. Age 65

Michael Hepher
Independent Non-Executive Director
Michael Hepher was appointed as an Independent Non-Executive Director of Catlin in October 2003. He was Chairman of Lane, Clark & Peacock LLP, a firm of consulting actuaries. He was formerly Chairman and Chief Executive Officer of Charterhouse plc and Group Managing Director of British Telecommunications plc. He also served as Chairman and Chief Executive of Abbey Life Group plc and subsequently Lloyd's Abbey Life plc; President and Chief Executive Officer of Maritime Life Assurance Company of Canada; and Chief Actuary of Commercial Life Assurance Company of Canada. He is also a Non-Executive Director of Kingfisher plc and Great-West Lifeco Inc. He is a Fellow of the Institute of Actuaries. Age 63

Jonathan Kelly
Non-Executive Director
Jonathan Kelly was appointed Non-Executive Director of Catlin in June 2006. He is also a Partner with Capital Z Financial Service Partners, a private equity firm. Prior to joining Capital Z in 1998, he was a Senior Vice President in the Investment Banking division of Donaldson, Lufkin & Jenrette, where he specialised in corporate finance transactions for clients in the insurance and reinsurance industry. Age 42

Gene Lee
Non-Executive Director
Gene Lee was appointed as a Non-Executive Director of Catlin in February 2006. He is a Managing Director with Cypress Advisors Inc., a private equity firm based in New York. Prior to joining Cypress in 2001, he worked for TH Lee Putnam Ventures, a venture capital fund affiliated with The Thomas Lee Company. He has also worked for Morgan Stanley and Princes Gate Investors, a private equity fund affiliated with Morgan Stanley. He was a member of the Catlin Group's Board from July 2002 through September 2003, prior to the Company's initial public offering. He is also a Non-Executive Director of FGIC Corporation. Age 33

Directors Report

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

Results and dividends
The consolidated statements of operations on page 64 shows net income of US$258.8 million (2005: US$19.7 million).

The Directors propose a final dividend of 17 pence (32.8 cents) per share, payable on 8 June 2007 to shareholders on the register at the close of business on 11 May 2007. An interim dividend of 6 pence (11.3 cents) per share was paid on 10 November 2006.

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 6 to 47.

Substantial shareholdings
At 7 March 2007 the Company had been notified of the following interests of 5 per cent or more in its the issued share capital:

	Number of shares	% of shares in issue[1]
FMR Corp., Fidelity International Limited and direct and indirect subsidiaries (Fidelity)	23,324,872	9.3%
CMBP II (Cayman) Catlin Ltd. and CMBP II (Cayman) Catlin Ltd. (Cypress)	13,753,349	5.5%
Barclays PLC	13,186,196	5.3%

1 Based on shares in issue at 7 March 2007 of 249,985,024.

Of the shareholders detailed above, Cypress held shares prior to the Company's initial public offering of common shares.

Warrants entitling the holders to purchase shares for US$5 per share are outstanding over 14,944,051 shares as at 7 March 2007. The following table shows the warrants held by the shareholders which have Directors appointed to the Board as described on page 52 in the Corporate Governance Report.

	Number of shares subject to warrant
Catlin Private Investment Ltd, Capital Z Catlin Investment Ltd. (together Capital Z) and Capital Z Investments L.L.C.	5,674,290
Cypress	4,414,194
CB-Catlin Inc. (Charlesbank)	1,237,624

Directors
The current Directors of the Company are named on page 48 and 49 together with biographical details. Particulars of their interests in shares are given below and in the Directors' Remuneration Report on pages 57 to 61.

Stephen Catlin and Christopher Stooke retire by rotation under the Company's Bye-laws and each offers himself for re-election as a Director at the Company's Annual General Meeting. Jonathan Kelly and Gene Lee retire from the Board as the entitlement of each of their appointing shareholders to maintain a Director in office lapses, and Richard Haverland retires voluntarily, at the Annual General Meeting. The Board has 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 2006 and at 1 January 2006, including the beneficial interests of any connected person, are set out in the table below:

	31 December 2006 Number of common shares	1 January 2006 Number of common shares
Alan Bossin	**0**	0
Stephen Catlin	**2,760,548**	2,760,548
Stephen Catlin as one of the trustees of Catlin Settlement Trust	**615,000**	683,841
Michael Crall	**14,815**	14,815
Jean Claude Damerval	**0**	0
Michael Eisenson	**0**	0
Michael Harper	**20,000**	10,000
Richard Haverland	**0**	79,815
Sir Graham Hearne	**22,569**	22,569
Michael Hepher	**14,815**	14,815
Jonathan Kelly	**0**	0
Gene Lee	**0**	0
Christopher Stooke	**13,859**	13,859

Notes:

1 There has been no change in these interests since 31 December 2006.

2 Three of the Directors listed above (Messrs Eisenson, Kelly and Lee) are associated with shareholders, and those shareholders may be deemed to be connected persons. Charlesbank (Michael Eisenson) held 9,400,751 common shares as at 1 January and 31 December 2006. Capital Z, excluding Capital Z Investments L.L.C., (Jonathan Kelly) held 12,803,325 common shares as at 1 January 2006 and 7,103,325 common shares as at 31 December 2006. Cypress (Gene Lee) held 13,186,196 common shares as at 1 January and 31 December 2006. These shareholders (as well as Capital Z Investments L.L.C.) hold warrants as described on page 50.

Directors' share options

None of the Non-Executive or Independent Directors hold share options in the Company. Details of the Executive Directors' share options are disclosed in the Directors' Remuneration Report on pages 60 to 61.

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 forthcoming Annual General Meeting, starts on page 57.

Business Review

The Business Review, which includes details of the Group's development and performance, is set out on pages 20 to 47.

Corporate social responsibility

The Board and the Company are committed to high standards of corporate social responsibility. Details of the Company's social, environmental and ethical policies are set forth in the Business Review on page 47.

Annual General Meeting

The notice of Annual General Meeting, to be held at noon on Thursday 24 May 2007 at the Elbow Beach Hotel, 60 South Shore Road, Paget Parish, Bermuda, is contained in a separate circular to shareholders enclosed with this report.

Auditors

Resolutions are to be proposed at the Annual General Meeting to reappoint 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
8 March 2007

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 not only with all Bermuda statutory requirements but also strives to comply voluntarily with the Combined Code. During 2006, the Company did in fact comply with the Code other than with respect to the minor variances described below. 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, six Independent Non-Executive Directors ('Independent Directors'), and three Non-Executive Directors originally appointed by specific shareholders ('Non-Executive Directors').

The Board composition changed on 3 February 2006 when Gene Lee was appointed to replace William Spiegel by Cypress and on 27 June 2006 when Jonathan Kelly was appointed to replace Mark Gormley by Capital Z. Both appointments were made pursuant to the Bye-law provision described below. There were no other changes to Board membership during 2006 and up to the date of this Report.

As detailed in the Listing Particulars for the IPO in April 2004 and agreed by the UK Listing Authority, the Company's Bye-laws grant to each of four shareholders the right to appoint and to maintain in office a director until the later of:

- the 2007 Annual General Meeting; and
- the Annual General Meeting following the date when the shareholder's holding in the Company fell below 10 per cent.

Two of those four shareholders disposed of their interests in the Company during 2005 and no longer maintain a Director in office. The other two shareholders, Capital Z and Cypress, have appointed Jonathan Kelly and Gene Lee. Their entitlement to appoint a Director lapses with the upcoming Annual General Meeting, at which time both Mr Kelly and Mr Lee will retire from the Board.

Michael Eisenson, Non-Executive Director, was originally appointed (in 2002) to the Board by a shareholder, Charlesbank. He was re-elected to the Board by shareholders generally at the 2005 Annual General Meeting.

There were no material changes to the Chairman's other commitments during 2006.

Independence of Directors
The Board considers Alan Bossin, Michael Crall, Jean Claude Damerval, Michael Harper, Richard Haverland and Michael Hepher 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 Hunter Bailhache, 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 six Independent Directors, the Board composition complied with the Combined Code during 2006.

The Board also considers that each of the three Non-Executive Directors is fully independent of management, understands his duty to all shareholders, and fulfils his responsibilities with independence of character and judgment. However, due to their affiliation with shareholders they were not, during 2006, 'independent' as defined by the Combined Code.

The Company does not comply with the Combined Code in respect of the following:

- The Compensation Committee has two Independent Directors and one Non-Executive Director, and the Audit Committee has three Independent Directors and two Non-Executive Directors.
- Certain Directors' appointment letters do not specify a minimum time commitment. The affected individuals have been Directors for at least two years, and the Board is satisfied that they devote sufficient time and attention to their responsibilities.

Board performance evaluation
During 2006 the Board undertook a formal self-appraisal, completed the implementation of improvements 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. These processes focused on the roles and responsibilities of the Board and its committees, Board procedures and the information provided to the Board. The principal steps taken as a result included clarifying the respective authorities of the Board and Audit Committee, strengthening company secretarial support, and numerous improvements in reporting to the Board including the introduction of new reports designed to monitor key performance indicators and progress against the business plan. The Board is undertaking a further self-appraisal process in early 2007, the results of which will be considered and implemented during the year.

During 2006, the Audit Committee retained a specialist corporate governance firm to review its terms of reference, the information provided to it and its general effectiveness. As a result, various changes to its terms of reference and working practices have been adopted and implemented.

Other performance reviews undertaken during 2006 include:

- A Board review of the effectiveness of all Board committees alongside self-appraisals by each committee (or, in the case of the Audit Committee, an external review);
- Performance appraisals of individual directors; and
- Meetings between the Senior Independent Director and the Independent and Non-Executive Directors, in the absence of the Chairman, to assess the Chairman's effectiveness.

The reviews were conducted through a combination of meetings and appraisal forms, and recommendations arising therefrom were implemented during 2006. A similar process is being followed early in 2007.

Board meetings
The Board held six meetings in 2006. Alan Bossin missed one meeting that had been scheduled on short notice, but he was provided with all papers in advance and given an opportunity to submit his views on the issues arising to the Chairman.

The Chairman met during the year with the Independent and 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 2006. These include the adoption of strategic or business plans, major transactions, investment strategy, major treasury or financial decisions, significant borrowing, 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.

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 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 in comprehensive meeting papers. Further information is obtained by the Board from the Executive Directors and from other senior executives as the Board, particularly the Independent and Non-Executive Directors, considers appropriate. The Board and its committees also 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 regularly updated on regulatory and compliance developments including Board governance matters. Additional briefing materials are available to any Director upon request. The Board is able to discuss the business with employees at all levels.

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.

Upon their appointments, new Directors receive a detailed induction programme which may include written materials and presentations from executives responsible for key areas of the business.

Relations with shareholders

The Company is committed to ongoing dialogue with its shareholders. Presentations to analysts and institutional 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. Other senior executives are also available to meet analysts and investors.

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, Non-Executive Directors and Independent Directors are also available to meet major shareholders.

Shareholders are encouraged to attend the Annual General Meeting.

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 2006, 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 December 2006 and January 2007, a review of the effectiveness of the Company's internal controls and risk management systems 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 in February 2007 and the Board in March 2007.

The Company has an ongoing process for identifying, evaluating and managing significant risks (the risk management programme) and this has been in place throughout 2006 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 Risk Committee and the Group Executive Committee 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.

During 2006, the Internal Audit team was strengthened to further enhance the assurance provided over the Company's system of internal controls. 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 are Michael Crall, Michael Harper, Richard Haverland and Michael Hepher. There were no changes to membership of the committee during 2006.

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 meets as and when required. It met once during 2006, and all committee members attended.

Activities
During 2006, the Nomination Committee was largely engaged in routine matters following the reconfiguration of all Board committees and appointment of two new Independent Directors during 2005. Firstly, the committee participated in performance appraisals of all directors. Secondly, having reviewed the mix of skills, experience and contributions of the directors, the committee recommended for re-election to the Board Sir Graham Hearne, Michael Crall, Richard Haverland and Michael Hepher. Thirdly, the committee recommended Michael Harper and Jean Claude Damerval for election to the Board. All such recommendations were approved by the Board and the candidates so nominated were elected to the Board at the 2006 Annual General Meeting.

Report from the Audit Committee
The Audit Committee is chaired by Michael Hepher, an Independent Director. The committee also includes Jean Claude Damerval, Richard Haverland, Jonathan Kelly and Gene Lee. The Chief Executive Officer, the Chief Financial Officer and other members of the Company's management attend meetings by invitation of the committee.

The membership of the Audit Committee changed on 3 February and 27 June 2006 when William Speigel and Mark Gormley, respectively, resigned from the committee and the Board. Gene Lee and Jonathan Kelly were appointed to the Board in their places by Cypress and Capital Z, respectively, and were appointed by the Board to the Audit 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.

During 2006 the terms of reference were amended to clarify the respective responsibilities of the committee and the Board for risk management.

The committee is responsible for approving all appointments of the external auditors (or their associated entities) 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 size 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 2006 for audit services amounted to $2,552,988 (2005: $1,427,081); the total paid in 2006 for non-audit services amounted to $1,042,817 (2005: $34,200). Nearly all of the non-audit work was related to the Wellington acquisition and the preferred share issue by Catlin Insurance Company Ltd.; the committee was satisfied that the work would not undermine PricewaterhouseCooper's ('PwC') role as external auditor and considered that due to PwC's familiarity with Catlin (and Wellington), timing issues and cost, it was appropriate to use PwC.

Corporate Governance Report continued

Meetings
The committee met six times during 2006, with full attendance at each meeting.

Activities
Financial reporting
- The committee reviewed the 2005 year-end and 2006 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.
- It reviewed proposed public financial statements.
- The committee met with members of the Catlin finance team to discuss planned improvements in the financial reporting systems.

External audit
- The committee met with the external auditors regarding their 2005 full year review, 2006 half year review and the plan for the 2006 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 discussed the effectiveness, performance and independence of the external auditors.

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 internal auditors without management present.
- The 2006 internal audit programme was reviewed and agreed.
- Key financial risks and other risks were identified and discussed with management.
- The committee directed and reviewed the assessment of effectiveness of internal controls and risk management systems.
- 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 conducted a review of how it had discharged its responsibilities under the terms of reference.
- The committee reviewed and amended its terms of reference and operations following an independent review of its effectiveness.

By Order of the Board

Daniel Primer
Company Secretary
8 March 2007

Directors' Remuneration Report

This report to shareholders provides information on the Company's remuneration policy and the remuneration of its Directors for the year ended 31 December 2006. It has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 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.

Compensation Committee

Throughout 2006, the Compensation Committee was chaired by Michael Crall, an Independent Director. The other members were Michael Eisenson and Michael Harper. Mr Harper is an Independent Director; as described in the Corporate Governance Report, Mr Eisenson is affiliated with a shareholder, but was re-elected as a Director by the shareholders generally at the 2005 Annual General Meeting. The Board believes that Mr Eisenson serves with independence of character and judgment and is fully independent of management.

The committee met four times in 2006, with full attendance at each meeting.

Terms of reference

The role and responsibilities of the Compensation Committee 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 on the Company's website.

Use of advisors

The Committee from time to time uses external consultants to provide advice on the Group's executive compensation structure. During 2006, the Committee retained Ridgeway Partners to research competitors' compensation packages and retained Total Reward Solutions to advise on issues related to the acquisition of Wellington, including the winding-up of Wellington share incentive schemes and retention arrangements. Ridgeway Partners also provide executive search services to the Group, but the committee considered that the existence of that relationship did not undermine the objectivity of the information provided by Ridgeway Partners.

The committee also receives information and assistance from various members of management, including the Chief Executive and Group Head of Human Resources. However, they are excluded from any discussions regarding their own remuneration. The Company Secretary or Group Head of Human Resources acts as secretary to the committee.

Policy on remuneration of Executive Directors and senior executives

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. Accordingly, vesting of the variable elements of compensation requires the Group to generate targeted economic returns (measured by return on equity or growth in net asset value per share) rather than achieving 'total shareholder return' measures. This policy is intended to align executive rewards with creation of shareholder value. The Committee has authority to consider all aspects of Company performance, including its performance on environmental, social and governance issues, in establishing remuneration.

Basic salary

Basic salaries and related benefits are determined having regard to employees' contributions, qualifications and seniority and 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 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 periodically researches competitors' remuneration structures but does not have a formal benchmarking policy and uses such comparisons cautiously to avoid unwarranted increases.

Bonus arrangements

Executive Directors participate along with other senior staff in a non-pensionable bonus plan; the amount payable to Executive Directors from the plan is determined by the committee at its discretion. The details of the plan have changed over time, but the basic structure is that a bonus pool representing a percentage of Group profits is created upon finalisation of the results for each financial year. The percentage is determined by a sliding scale based upon return on equity, which ensures alignment between awards and creation of shareholder value.

Due to the extraordinary hurricane losses during 2005, the return on equity threshold was not reached and no bonuses (which would have been payable in 2006) were earned under the bonus plan.

The bonus plan for the 2006 financial year retains the fundamental alignment between awards and Company performance, offers competitive remuneration to key staff, and provides the committee with an appropriate degree of discretion over the size of the total bonus pool and individual awards. Subject to committee discretion, the plan calls for creation of a bonus pool equal to 4 per cent of profits before tax if return on equity is 10 per cent, rising on a straight line basis to 5 per cent of profits at a return on equity of 15 per cent to a maximum of 7 per cent if return on equity is 20 per cent. Return on equity for the period exceeded 20 per cent, resulting in a pool equal to 7 per cent of profits before tax. Individual allocations to eligible employees were based upon achievement of individual performance objectives and are expected to be paid in full during the first half of 2007.

The committee continues to review the suitability of the bonus plan in light of the business environment and the Company's objectives for each year.

Share plans
The Company seeks further to align interests between Executive Directors, senior staff and shareholders by promoting share ownership through performance-based share incentive plans. Three such plans are in existence, although awards during the period have been made only under one:

- The Performance Share Plan ('PSP'), adopted by the Company in 2004. Awards were made under the PSP during 2006 (detailed below), and further awards made during 2007 will be reported in detail in the 2007 accounts.
- The Long Term Incentive Plan ('LTIP'), adopted in 2002. The last awards were made during 2004, and no further awards will be made.
- A Share Option Plan was adopted contemporaneously with the PSP, but no awards are currently outstanding or anticipated.

Performance Share Plan
The PSP was adopted by the Board immediately prior to the Company's IPO in 2004 and is designed to reward executives for delivering growth in shareholder value. The committee reviewed the PSP during 2006 and believes that it remains appropriate for the Company's current circumstances.

The PSP provides for conditional awards of shares, which are subject to achievement of performance conditions calibrated to creation of shareholder value. PSP awards vest only to the extent that cumulative growth of net asset value plus cumulative dividends per share during the Relevant Period exceeds US dollar Libor plus 5 per cent. 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 2006, the Relevant Period is 2006 to 2008 (inclusive) as to half of the award, and 2006 to 2009 for the balance. In addition, upon vesting participants are entitled to shares ('Dividend Shares') equal in value to the dividends accrued on shares conditionally awarded, but only to the extent that the underlying awards vest. The Dividend Shares are purchased in the market on the date dividends accrue and are held in an employee benefit trust. Individual awards normally vest only if the participant is still employed in the Group upon expiry of the Relevant Period.

Total awards under the PSP are limited such that no award may be granted if the total number of shares issuable under the PSP and other share plans established by the Company during the period of ten years prior to such grant (but excluding any awards granted pursuant to the LTIP or otherwise prior to IPO) would exceed 5 per cent of the issued ordinary share capital of the Company on the date of grant. Individual annual awards will not ordinarily exceed twice the participant's basic salary.

Award to Directors during 2006
An award under the PSP was made during 2006 to each of the Executive Directors. Stephen Catlin received an award of 198,152 shares, and Christopher Stooke received an award of 140,082 shares. The value of the awards marginally exceeded twice basic salary (approximately 205%) due solely to the fact that the share price increased between the date that the committee approved the awards and the date on which the associated documentation was issued.

LTIP
The LTIP was adopted in 2002 in a form agreed between the Company and its major shareholders. It consists of two types of options, A-Options (with an exercise price of $5 per share and final vesting in July 2006 (except for a small number of awards that vest in July 2007)) and B-Options (with exercise prices of $10/$12.50/$15 per share and final vesting in July 2007). No options have been issued under the LTIP since the IPO and no further awards will be made. Details of outstanding awards to Directors are set forth below.

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 receives a Bermuda housing allowance.

Service contracts
Stephen Catlin is employed as Chief Executive Officer pursuant to a contract dated 5 April 2006. Christopher Stooke is employed as Chief Financial Officer pursuant to contracts dated 30 October 2002 and 18 January 2007. The contracts require 12 months' notice of termination, and do not provide for additional compensation to be paid in the event of termination. Both serve as Directors subject to the Bye-laws and to re-election from time to time at the Company's annual general meetings. No additional compensation is payable to either 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.

Mr Catlin served as a member of the Lloyd's Franchise Board throughout 2006. He was paid £45,000 (US$83,250) by Lloyd's, which he retained. He ceased to be a member on 31 December 2006.

Non-Executive Directors
on-Executive Directors serve pursuant to letters of appointment, details of which are as follows:

Director	Date of current appointment letter	Unexpired term
Alan Bossin	29 March 2004	Until 2008 Annual General Meeting ('AGM')
Michael Crall	20 September 2004	Until 2009 AGM
Jean Claude Damerval	6 July 2005	Until 2009 AGM
Michael Eisenson	16 June 2004	Until 2008 AGM
Michael Harper	7 July 2005	Until 2009 AGM
Richard Haverland	20 September 2004	Until 2009 AGM
Sir Graham Hearne	13 January 2005	Until 2008 AGM
Michael Hepher	20 September 2004	Until 2009 AGM
Jonathan Kelly	19 July 2006	Until 2007 AGM
Gene Lee	17 February 2006	Until 2007 AGM
Mark Gormley	21 September 2004	Resigned 27 June 2006
William Spiegel	16 June 2004	Resigned 3 February 2006

In addition to the time limits set forth above under 'Unexpired term', all Independent and Non-Executive Directors' appointments are subject to 90 days' notice of termination and the Bye-law requirements governing retirement by rotation. Sir Graham Hearne and Messrs Crall, Haverland and Hepher 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 £108,750 ($201,187), £37,500 ($69,375), £37,500 ($69,375) and £41,250 ($76,312), respectively. None of those Directors has any executive role with the Company.

The Board determines the fees paid to the Independent and Non-Executive Directors by reference to market rates and the time, skills and commitment required. Independent and Non-Executive Directors do not participate in pension, bonus or share plans.

The appointment letters and service agreements are available for inspection at the Company's UK Paying Agent during normal business hours.

Directors' emoluments

The aggregate emoluments paid to or receivable by Directors for services to the Company and its subsidiary undertakings for the 2006 financial year, together with comparatives for the previous year, are as follows:

US$	Salary	Fees	Bonus	Benefits	**Total 2006**	Total 2005
Alan Bossin	–	71,688	–	–	**71,688**	63,700
Stephen Catlin	887,680	–	548,341[1]	60,658	**1,496,679**	845,850
Michael Crall	–	91,300	–	–	**91,300**	81,900
Jean Claude Damerval	–	71,688	–	–	**71,688**	29,621
Michael Eisenson[2]	–	71,688	–	–	**71,688**	63,300
Mark Gormley[3]	–	34,000	–	–	**34,000**	63,700
Michael Harper	–	111,000	–	–	**111,000**	50,778
Richard Haverland	–	90,188	–	–	**90,188**	81,900
Sir Graham Hearne	–	259,000	–	–	**259,000**	227,500
Michael Hepher	–	99,438			**99,438**	91,000
Jonathan Kelly[4]	–	38,600	–	–	**38,600**	91,000
Gene Lee[5]	–	66,953	–	–	**66,953**	–
William Spiegel[6]	–	6,115	–	–	**6,115**	–
Christopher Stooke	634,920	–	283,525[1]	12,114	**930,559**	608.840

1 The bonus relates to the payment of the remaining amounts due from the 2004 bonus award made to each of Messrs Catlin and Stooke, which are reported in the 2004 accounts on an accrual basis.
2 Fees payable in respect of Michael Eisenson are payable to Charlesbank Capital Partners LLP
3 Fees payable in respect of Mark Gormley are payable to Capital Z; Mr Gormley resigned from the Board on 27 June 2006
4 Appointed 27 June 2006
5 Appointed 3 February 2006
6 Resigned 3 February 2006

Executive Directors' benefits

The Company paid a contribution to Mr Catlin's personal pension plan of US$33,763 (2005: US$126,499). The Company ceased contributing to Mr Catlin's pension on 5 April 2006. Mr Stooke participates in the Company's money purchase scheme and is entitled to a contribution paid by the Company equal to 15 per cent of his base salary; the total amount paid in 2006 was US$95,238 (2005: US$90,090).

Options over shares

The closing price for the Company's shares on 29 December 2006 was 514 pence, and the range during the year was 402 pence to 528 pence. The closing price for shares on 7 March 2007 was 479.5 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 2006	Number of shares subject to option 31 December 2006	Exercise price	Exercise period From	Exercise period To
Stephen Catlin					
A-Options	2,568,256	2,568,256	$5	Now	4 July 2012
B-Options	1,926,192	1,926,192	$10/$12.50/$15	Now	1 Jan 2008
	1,926,192	1,926,192	$10/$12.50/$15	4 July 2007	1 Jan 2008
Christopher Stooke					
A-Options	128,412	128,412	$5	Now	4 July 2012
	48,135	48,135	$6.48	Now	4 July 2012
	16,051	16,051	$6.48	4 July 2007	4 July 2012
B-Options	96,310	96,310	$10/$12.50/$15	Now	1 July 2008
	192,619	192,619	$10/$12.50/$15	4 July 2007	1 July 2008

The table below shows awards made during 2006 under the PSP. All remained outstanding at year end.

	Award date	Number of shares subject to option at 1 January 2006	Awarded during 2006 (number of shares subject to option)	Number of shares subject to option at 31 December 2006	Vesting date
Stephen Catlin	9 March 2006	131,412	198,152	329,564	Up to 65,706 in March 2008 Up to 164,782 in March 2009 Up to 99,076 in March 2010
Christopher Stooke	9 March 2006	95,101	140,082	235,183	Up to 47,551 in March 2008 Up to 117,591 in March 2009 Up to 70,041 in March 2010

The closing price of the Company's shares on 9 March 2006 was 502 pence.

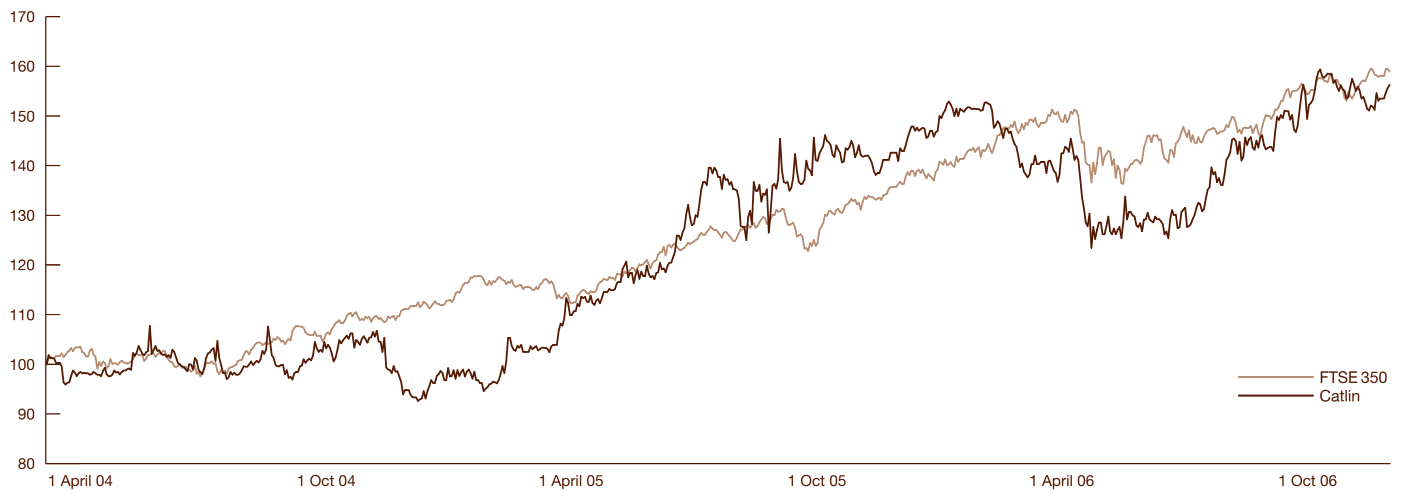
The Executive Directors have potential beneficial interests in the Dividend Shares held by the trustees of the Catlin Group Employee Benefit Trust as at 31 December 2006 (as further described on page 58 of this report):

Name	Number of common shares
Stephen Catlin	10,457
Christopher Stooke	7,503

No Directors exercised options or PSP awards during 2006.

Performance graph

The graph below shows the total shareholder return for the Company's common shares since they began trading on 1 April 2004 to 31 December 2006 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 8 March 2007 and was signed on its behalf by:

Daniel Primer
Company Secretary

Report of Independent Registered Public Accounting Firm to the Board of Directors and the 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 and accumulated other comprehensive income, 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 2006 and 31 December 2005, and the results of its operations and its cash flows for each of the two years in the period ended 31 December 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers
Bermuda
8 March 2007

Consolidated Balance Sheets

For the years ended 31 December 2006 and 2005 (US dollars in thousands, except share amounts)

	2006	2005
Assets		
Investments		
Fixed maturities, available-for-sale, at fair value (amortised cost 2006: $2,685,960; 2005: $1,761,968)	**$2,669,437**	$1,744,043
Short-term investments, at fair value	**27,565**	14,666
Investment in funds	**326,208**	–
Investment in associate	**2,617**	2,794
Total investments	**3,025,827**	1,761,503
Cash and cash equivalents	**1,987,882**	609,857
Securities lending collateral	**130,854**	–
Accrued investment income	**32,136**	17,227
Premiums and other receivables	**987,768**	565,500
Reinsurance recoverable (net of allowance of 2006: $46,791; 2005: $24,511)	**1,237,531**	607,446
Deposit with reinsurer	**1,321**	21,823
Reinsurers' share of unearned premiums	**104,731**	37,222
Deferred policy acquisition costs	**144,063**	126,738
Value of in-force business acquired	**118,384**	–
Intangible assets and goodwill (accumulated amortisation 2006: $29,789; 2005: $26,181)	**868,026**	63,639
Derivatives, at fair value	**46,037**	–
Other assets	**121,758**	49,028
Total assets	**$8,806,318**	$3,859,983
Liabilities, Minority Interest and Stockholders' Equity		
Liabilities:		
Reserves for losses and loss expenses	**$4,005,133**	$1,995,485
Unearned premiums	**1,290,379**	663,659
Deferred gain	**–**	8,078
Reinsurance payable	**192,958**	137,313
Accounts payable and other liabilities	**363,399**	70,186
Notes payable	**550,290**	50,000
Subordinated debt	**99,936**	–
Derivatives, at fair value	**619**	–
Securities lending payable	**130,854**	–
Deferred taxes	**153,721**	4,181
Total liabilities	**$6,787,289**	$2,928,902
Minority interest	749	–
Stockholders' equity:		
Ordinary common shares, par value $0.01 Authorised 400,000,000; issued and outstanding 2006: 238,283,281; 2005: 155,914,616)	**$2,383**	$1,559
Additional paid-in capital	**1,610,725**	721,935
Treasury stock	**(6,600)**	–
Accumulated other comprehensive loss	**(26,090)**	(21,399)
Retained earnings	**437,862**	228,986
Total stockholders' equity	**2,018,280**	931,081
Total liabilities, minority interest and stockholders' equity	**$8,806,318**	$3,859,983

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

Approved by the Board of Directors on 8 March 2007.

Stephen Catlin
Director

Christopher Stooke
Director

Consolidated Statements of Operations

For the years ended 31 December 2006 and 2005 (US dollars in thousands, except share amounts)

	2006	2005
Revenues		
Gross premiums written	**$1,605,019**	$1,386,600
Reinsurance premiums ceded	**(194,896)**	(197,501)
Net premiums written	**1,410,123**	1,189,099
Change in net unearned premiums	**(84,262)**	27,343
Net premiums earned	**1,325,861**	1,216,442
Net investment income	**105,287**	82,147
Net realised losses on investments	**(17,041)**	(1,520)
Change in fair value of derivatives	**(619)**	–
Net realised gains/(losses) on foreign currency exchange	**38,746**	(13,791)
Other income	**3,528**	741
Total revenues	**1,455,762**	1,284,019
Expenses		
Losses and loss expenses	**681,549**	865,285
Policy acquisition costs	**341,531**	305,539
Administrative expenses	**130,703**	61,865
Other expenses	**26,562**	23,665
Total expenses	**1,180,345**	1,256,354
Income before minority interest and income tax expense	**275,417**	27,665
Minority interest	**(22)**	–
Income tax expense	**(16,606)**	(8,003)
Net income	**$258,789**	$19,662
Earnings per common share		
Basic	**$1.59**	$0.13
Diluted	**$1.47**	$0.12

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

Consolidated Statements of Changes in Stockholders' Equity and Accumulated Other Comprehensive Income

For the years ended 31 December 2006 and 2005 (US dollars in thousands, except share amounts)

	Common stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance 1 January 2005	$1,541	$716,649	–	$248,841	$4,156	$971,187
Comprehensive income:						
Net income	–	–	–	19,662	–	19,662
Other comprehensive loss	–	–	–	–	(25,555)	(25,555)
Total comprehensive income/(loss)	–	–	–	19,662	(25,555)	(5,893)
Stock compensation expense	–	4,246	–	–	–	4,246
Stock options and warrants exercised	18	(18)	–	–	–	–
Dividends declared	–	-	–	(38,950)	–	(38,950)
Deferred compensation obligation	–	567	–	(567)	–	–
Adjustment to Global Offer expenses	–	491	–	–	–	491
Balance 31 December 2005	$1,559	$721,935	–	$228,986	$(21,399)	$931,081
Comprehensive income:						
Net income	–	–	–	258,789	–	258,789
Other comprehensive loss	–	–	–	–	(4,691)	(4,691)
Total comprehensive income/(loss)	–	–	–	258,789	(4,691)	254,098
Issuance of common shares in connection with acquisition of Wellington	744	811,683	–	–	–	812,427
Equity raise	77	64,804	–	–	–	64,881
Stock compensation expense	–	11,000	–	–	–	11,000
Stock options and warrants exercised	3	(3)	–	–	–	–
Dividends declared	–	–	–	(48,607)	–	(48,607)
Deferred compensation obligation	–	1,306	–	(1,306)	–	–
Treasury stock purchase	–	–	(6,600)	–	–	(6,600)
Balance 31 December 2006	**$2,383**	**$1,610,725**	**$(6,600)**	**$437,862**	**$(26,090)**	**$2,018,280**

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

Consolidated Statements of Cash Flows

For the years ended 31 December 2006 and 2005 (US dollars in thousands, except share amounts)

	2006	2005
Cash flows provided by operating activities		
Net income	**$258,789**	$19,662
Adjustments to reconcile net income to net cash provided by operations:		
Amortisation and depreciation	**11,379**	9,631
Amortisation of premiums/discounts of fixed maturities	**(6,185)**	(12,371)
Net realised losses on investments	**17,040**	1,520
Changes in operating assets and liabilities, net of effect of business combination		
Reserves for losses and loss expenses	**(258,017)**	700,895
Unearned premiums	**52,587**	7,810
Premiums and other receivables	**(7,346)**	(10,087)
Deferred policy acquisition costs	**(1,639)**	2,577
Reinsurance payable	**(175,687)**	166,576
Reinsurance recoverable	**292,176**	(305,930)
Reinsurers' share of unearned premiums	**4,016**	(14,334)
Deposit with reinsurer	**21,823**	36,007
Deferred gain	**(8,078)**	(11,470)
Accounts payable and other liabilities	**60,894**	(2,174)
Investments in funds	**(89,925)**	–
Deferred tax	**–**	6,855
Other	**(50,635)**	(129,933)
Net cash flows provided by operating activities	**121,192**	465,234
Cash flows provided by/(used in) investing activities		
Purchases of fixed maturities	**(2,138,862)**	(1,817,889)
Purchases of short-term investments	**(97,088)**	(258,048)
Proceeds from sales of fixed maturities	**2,104,900**	1,445,990
Proceeds from maturities of fixed maturities	**17,397**	77,864
Proceeds from sales of short-term investments	**102,219**	429,616
Cash flows arising from investment in associate	**1,452**	–
Purchases of subsidiaries, net of cash acquired	**933,042**	–
Purchase of intangible assets	**(223,257)**	(51)
Purchases of property and equipment	**(16,484)**	(11,174)
Proceeds from sales of property and equipment	**340**	21
Investment of securities lending collateral	**(130,854)**	–
Net cash flows provided by/(used in) investing activities	**$522,805**	$(133,671)

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

	2006	2005
Cash flows provided by/(used in) financing activities		
Net proceeds from issue of common shares	**$65,436**	–
Dividends paid on common shares	**(48,751)**	(38,291)
Proceeds from notes payable	**500,000**	250,000
Repayment of notes payable	**–**	(250,000)
Securities lending collateral received	**130,854**	–
Purchase of treasury stock	**(1,352)**	–
Net cash flows provided by/(used in) financing activities	**646,187**	(38,291)
Net increase in cash and cash equivalents	**1,320,184**	293,272
Cash and cash equivalents – beginning of year	**609,857**	354,608
Effect of exchange rate changes	**57,841**	(38,023)
Cash and cash equivalents – end of year	**$1,987,882**	$609,857
Supplemental cash flow information		
Taxes paid	**$16,135**	$223
Interest paid	**$2,655**	$2,113
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	**$1,040,079**	$480,014
Cash equivalents	**$947,803**	$129,843

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

Notes to the Consolidated Financial Statements

For the years ended 31 December 2006 and 2005 (US dollars in thousands, except share amounts)

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 intermediate holding companies in the United Kingdom ('UK'), the Company is the sole shareholder of Catlin Underwriting Agencies Limited ('CUAL'), a Lloyd's managing agent, and Catlin Syndicate Limited ('CSL'), member of Lloyd's Syndicate 2003 and Syndicate 2600. As well as Syndicates 2003 and 2600, CUAL also managed Syndicate 1003, the capital of which was provided by third parties for 2002 and prior years. With effect from the 2003 underwriting year, through 31 December 2006, CSL was the sole capital provider to all CUAL-managed syndicates; with effect from the 2007 underwriting year, certain units of Wellington Underwriting plc also provide capital to support Syndicate 2003's underwriting.

In December 2000, the Company established Catlin Insurance Company Ltd. ('Catlin Bermuda') as a Bermuda-licensed insurer. Catlin Bermuda remained dormant until July 2002 when, in conjunction with a private equity capital raise, Catlin Bermuda was capitalised, activated and licensed as a Class 4 insurer under the laws and regulations of Bermuda. In December 2003, Catlin Bermuda received authorisation from the Financial Services Authority ('FSA') to commence underwriting in the UK through its UK Branch operations. In March 2005, Catlin Insurance Company (UK) Limited ('Catlin UK') was authorised by the FSA and in June 2005, all of the business written by the UK Branch of Catlin Bermuda was novated into this new company, Catlin UK, a subsidiary of Catlin Bermuda.

In May 2006, the Group, through its wholly owned subsidiary Catlin Inc., acquired 100 per cent of the outstanding common shares of American Indemnity Company. That company, now renamed Catlin Insurance Company Inc. ('Catlin US'), is expected to become a key part of the Company's US operations.

On 18 December 2006, the Group declared unconditional its offer to acquire all of the issued and to be issued share capital of Wellington Underwriting plc ('Wellington'). The core of Wellington's business was in the Lloyd's insurance market. Wellington also owned a managing general agent in the United States, Wellington Underwriting Inc. ('WU Inc.') and a US-based specialist insurance company, Wellington Specialty Insurance Company ('WISC'). This acquisition is described in Note 3.

At 31 December 2006, the Company was also the sole shareholder (directly or through intermediate holding companies) of companies in Canada (Toronto and Calgary), Australia (Sydney), Singapore, Malaysia (Kuala Lumpur), Hong Kong, Germany (Cologne), Belgium (Antwerp) and Guernsey. Catlin UK operates regional offices in Glasgow, Leeds, Derby, Birmingham, Watford and Tonbridge. These companies all act as underwriting agents for Catlin underwriting platforms. During early 2007 the Company established (directly or through intermediate holding companies) companies in France (Paris), Spain (Barcelona), Austria (Innsbruck) and Switzerland (Zurich).

Through its subsidiaries, the Company writes a broad range of products, including property, casualty, energy, marine and aerospace insurance products and property, catastrophe and per-risk excess, non-proportional treaty, aviation, marine, casualty and motor reinsurance business. Business is written from many countries, although business from the United States predominates. The Company and its subsidiaries are together referred to as the 'Group'.

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

Principles of consolidation

The consolidated financial statements include the accounts of the 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 US dollars ('US dollars' or '$').

Investment in fixed maturities

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

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

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

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

Other than temporary impairments

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

Short-term investments

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

Investment in funds

The Group's investment in funds is considered to be trading and is carried at fair value. The fair value is based on the quoted market price of these funds provided by independent pricing services.

Realised and unrealised gains and losses are included in earnings and are derived using the specific-identification method.

Investment in associate

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

Derivatives

In accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), 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 earnings.

Cash and cash equivalents

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

Securities lending
Certain entities within the Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the loaned securities remain under the 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 income.

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

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

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

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

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

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

Value of in-force business acquired
Upon the Group's acquisition of Wellington, an asset representing the present value of future profits associated with unearned premiums was recorded. The value of in-force insurance contracts is amortised over the period in which the related premiums are earned and is expected to have been fully amortised approximately two years from the date of acquisition.

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 (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 principles. Reserves are based on a number of factors, including experience derived from historical claim payments and actuarial assumptions to arrive at loss development factors. Such assumptions and other factors include trends, the incidence of incurred claims, the extent to which all claims have been reported, and internal claims processing charges. The process used in establishing reserves cannot be exact, particularly for liability coverages, since actual claim costs are dependent upon such complex factors as inflation, changes in doctrines of legal liability and damage awards. The methods of making such estimates and establishing the related liabilities are periodically reviewed and updated.

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

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

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

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

Contract deposits
Contracts written by the 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.

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.

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

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

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

During 2005, the Group reassessed its estimate of the useful life of syndicate capacity purchased during 2002 and determined that it was indefinite. As a result, the Group has ceased amortising this intangible asset and instead assesses its recoverability at least annually.

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

Other assets

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

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

Comprehensive income/(loss)

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

Foreign currency translation and transactions

Foreign currency translation

The Group has more than one functional currency, generally the currency of the local operating environments, consistent with its operating environment and underlying cash flows. The presentation currency of the Group has been determined to be US dollars. For subsidiaries with a functional currency other than US dollars, foreign currency assets and liabilities are translated into US dollars using period end rates of exchange, while statements of operations are translated at average rates of exchange for the period. The resulting translation differences are recorded as a separate component of accumulated other comprehensive income/(loss) within stockholders' equity.

Foreign currency transactions

Monetary assets and liabilities denominated other than in 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 tax basis discount on unpaid losses, adjustment for unearned premiums, the accounting treatment of reinsurance contracts, and tax benefits of net operating loss carry-forwards. 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 Group accounts for stock-based compensation arrangements under the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), Accounting for Stock-Based Compensation ('FAS 123R').

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

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

Warrants

For convertible preference shares issued with detachable stock purchase warrants, the portion of the proceeds that is allocable to the warrants is accounted for as additional paid-in capital. This allocation is based on the relative fair values of the two securities at the time of issuance. Warrant contracts are classified as equity so long as they meet all the conditions of equity outlined in EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. Subsequent changes in fair value are not recognised in the Statement 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. In accordance with Statement of Financial Accounting Standard No 87, Employers' Accounting for Pensions, the recorded asset related to the plan was set equal to the value of plan assets in excess of the defined benefit obligation at the date of the business combination.

Risks and uncertainties

In addition to the risks and uncertainties associated with unpaid losses and loss expenses described above and in Note 7, cash balances, investment securities and reinsurance recoveries are exposed to various risks, such as interest rate, market, foreign exchange and credit risks. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements. The cash balances and investment portfolio are managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single institution issue and issuers. Similar diversification provisions are in place governing the Group's reinsurance programme. Management believes that there are no significant concentrations of credit risk associated with its investments and its reinsurance programme.

New accounting pronouncements

In April 2005, the Financial Accounting Standards Board ('FASB') issued FAS 123R, which is a revision of FAS 123, 'Accounting for Stock-based Compensation.' FAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services for share-based payment transactions, and requires that all share-based payment transactions are recorded at fair value. FAS 123R is effective for reporting periods beginning after 15 December 2005, but early adoption is permitted. The Group adopted the provisions of FAS 123R in the 2005 consolidated financial statements using modified prospective application, such that the new Performance Share Plan described in Note 14 has been accounted for in accordance with FAS 123R. The Group's existing stock option plan was historically accounted for at fair value and therefore the adoption of FAS 123R had no impact on the Group's financial position or results of operations.

In June 2005, the FASB issued Financial Accounting Standard 154, ('FAS 154') Accounting Changes and Error Corrections, a replacement of APB No. 20 and FAS No 3. FAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. FAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle and requires that a change in depreciation, amortisation, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. The provisions of FAS 154 are effective for accounting changes made in fiscal years beginning after 15 December 2005, but early adoption is permitted. The adoption of FAS 154 did not have an impact on the Group's financial position or results of operations.

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

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 ('FIN 48'). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before recognition in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after 15 December 2006. Management has reviewed its tax positions and does not anticipate that the adoption of FIN 48 will have a significant impact on the reporting of those positions.

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

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

3 Business Combination

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

Prior to the acquisition, Wellington managed and underwrote a diversified book of insurance and reinsurance business at Lloyd's and in the United States. As a result of the acquisition, the enlarged Group will be a major international specialty insurance and reinsurance business with well-established underwriting platforms in the United Kingdom and Bermuda and a significantly enhanced underwriting and distribution platform in the United States.

Under the terms of the Offer, Wellington shareholders received 0.17 shares of the Company's common stock and 35 pence in cash for each Wellington share surrendered. Total consideration paid by the Group was $1,184,934, including $347,431 of cash and 86,094,294 shares of the Company's common stock valued at $ 812,427. The value of the common shares issued was determined based on the average market price of the Company's common shares for the period from 20 October to 2 November 2006, inclusive, which commenced two business days before the announcement that the Company and Wellington were in discussions regarding a possible combination and ended the two business days after the terms of the Offer were announced.

As at 31 December 2006, acceptances representing 93 per cent of Wellington's issued share capital had been received, and acceptances representing 88 per cent of Wellington's issued share capital had been settled in the form of $300,286 of cash and 74,414,657 shares. The remaining 12 per cent has been accrued in the year end balance sheet as a liability for the cash consideration and within additional paid-in capital for the equity consideration and has been acquired in early 2007 as described in Note 21.

The following table summarises the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The fair values will continue to be refined as further relevant information is obtained.

Investments and cash	$2,288,886
Premiums and other receivables	339,366
Reinsurance recoverable	804,787
Value of in-force business acquired	118,384
Intangible assets and goodwill	472,556
Other assets	119,676
Total assets acquired	4,143,655
Reserves for losses and loss expenses	2,026,268
Unearned premiums	491,756
Reinsurance payable	65,306
Subordinated debt	99,936
Deferred tax	134,739
Other liabilities	217,176
Total liabilities assumed	3,035,181
Net assets acquired	$1,108,474

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

Cash consideration	$347,431
Catlin share consideration	812,427
Acquisition expenses	25,076
Total consideration	$1,184,934
Net assets acquired	1,108,474
Treasury shares acquired	7,490
Goodwill	$68,970

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

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

Given the timing of the acquisition of Wellington, the goodwill arising has not yet been allocated to a segment. This allocation will take place in early 2007. The goodwill is not expected to be deductible for income tax purposes.

The unaudited pro forma financial information presented below assumes the acquisition occurred as at 1 January 2005. The following unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the actual results of operations that would have occurred had the acquisition been consummated at the beginning of the periods presented.

	2006	2005
Gross premiums written	$2,721,800	$2,360,790
Total revenues	2,488,451	2,152,266
Net income	408,635	(53,813)
Earnings per share:		
Basic	$1.73	$(0.23)
Diluted	$1.63	$(0.23)
Shares outstanding:		
Basic	236,601,569	229,398,754
Diluted	250,078,528	237,443,942

Restructuring costs
In December 2006, the Group's management approved and committed to plans to terminate the employment of certain employees of Wellington. A liability of $5,565 representing the cost of these actions has been included in the allocation of the purchase price of the Wellington acquisition. No payments were made against these liabilities during 2006. Termination costs with respect to identified employees employed by the Group prior to the acquisition were recorded as part of other expenses.

4 Segmental information
At 31 December 2006, there were four intra-Group reinsurance contracts in place: a 10 per cent Qualifying Quota Share ('QQS') contract on the 2004 Year of Account; a Long Tail Stop Loss ('LTSL'); and a 50 per cent Corporate Quota Share ('CQS'), all of which cede Catlin Syndicate risk to Catlin Bermuda, as well as the 60 per cent Quota Share contract that cedes Catlin UK risk to Catlin Bermuda ('CUK QS'). The effects of each of these reinsurance contracts are included within each of the operating segments, as this is the basis upon which the performance of each segment is assessed, and are then eliminated to reconcile to the Group position.

For the years ended 31 December 2006 and 2005, these segments correspond to the location of where the business was written, with Catlin Syndicate Direct, Catlin Syndicate Reinsurance and Catlin UK business being written in the UK and Catlin Bermuda business being written in Bermuda.

Net income before tax by operating segment for the year ended 31 December 2006 is as follows:

	Catlin Syndicate Direct	Catlin Syndicate Reinsurance	Catlin Bermuda	Catlin UK	Intra-Group	Total
Gross premiums written	$836,312	$270,308	$728,755	$299,255	$(529,611)	$1,605,019
Reinsurance premiums ceded	(420,875)	(138,084)	(6,235)	(159,313)	529,611	(194,896)
Net premiums written	415,437	132,224	722,520	139,942	–	1,410,123
Net premiums earned	402,701	138,616	652,025	132,519	–	1,325,861
Losses and loss expenses	(156,777)	(89,038)	(368,368)	(67,366)	–	(681,549)
Policy acquisition costs	(191,587)	(51,777)	(97,641)	(58,307)	57,781	(341,531)
Administrative and other expenses	(23,914)	(5,852)	(64,654)	(5,064)	(57,781)	(157,265)
Net underwriting result	30,423	(8,051)	121,362	1,782	–	145,516
Net investment income, net realised losses on investments and change in fair value of derivatives	26,615	9,161	43,093	8,758	–	87,627
Net realised gains on foreign currency exchange	11,768	4,051	19,054	3,873	–	38,746
Other income	1,071	369	1,735	353	–	3,528
Income before income tax expense	$69,877	$5,530	$185,244	$14,766	–	$275,417
Total revenue	$442,155	$152,197	$715,907	$145,503	–	$1,455,762

Net income before tax by operating segment for the year ended 31 December 2005 is as follows:

	Catlin Syndicate Direct	Catlin Syndicate Reinsurance	Catlin Bermuda	Catlin UK	Intra-Group	Total
Gross premiums written	$698,841	$278,450	$566,805	$232,129	$(389,625)	$1,386,600
Reinsurance premiums ceded	(360,037)	(122,814)	(8,341)	(95,934)	389,625	(197,501)
Net premiums written	338,804	155,636	558,464	136,195	–	1,189,099
Net premiums earned	478,670	186,191	395,727	155,854	–	1,216,442
Losses and loss expenses	(205,042)	(184,556)	(382,577)	(93,110)	–	(865,285)
Policy acquisition costs	(176,886)	(58,495)	(45,513)	(36,203)	11,558	(305,539)
Administrative and other expenses	(29,109)	(11,322)	(24,064)	(9,477)	(11,558)	(85,530)
Net underwriting result	67,633	(68,182)	(56,427)	17,064	–	(39,912)
Net investment income and net realised losses on investments	31,727	12,341	26,229	10,330	–	80,627
Net realised losses on foreign currency exchange	(5,426)	(2,111)	(4,487)	(1,767)	–	(13,791)
Other income	291	113	242	95	–	741
Income/(loss) before income tax expense	$94,225	$(57,839)	$(34,443)	$25,722	–	$27,665
Total revenue	$505,262	$196,534	$417,711	$164,512	–	$1,284,019

Total revenue is the total of net premiums earned, net investment income and net realised gain/(loss) on investments, net realised gain/(loss) on foreign currency exchange, and other income.

Total assets by segment at 31 December 2006 and 2005 are as follows:

	2006	2005
Catlin Syndicate Direct	**$1,953,095**	$2,190,303
Catlin Syndicate Reinsurance	**835,510**	749,162
Catlin Bermuda	**2,932,168**	1,913,467
Catlin UK	**708,546**	509,869
Other	**2,438,957**	860,990
Assets acquired from Wellington	**4,214,867**	–
Consolidation adjustments	**(4,276,825)**	(2,363,808)
Total assets	**$8,806,318**	$3,859,983

'Other' in the table above includes assets such as investments in Group companies which are not allocated to individual segments. Net assets acquired from Wellington have not as yet been allocated to segments.

As noted above, goodwill associated with the acquisition of Wellington has not yet been allocated to segments. Previously recognised goodwill has been allocated to the relevant segments, being Catlin Syndicate Direct and Catlin Syndicate Reinsurance. The amount of goodwill allocated as at 31 December 2006 was $10,179 (2005: $11,740) for Catlin Syndicate Direct and $3,504 (2005: $3,173) for Catlin Syndicate Reinsurance.

5 Investments

Fixed maturities

The fair values and amortised costs of fixed maturities at 31 December 2006 and 2005 are as follows:

	2006		2005	
	Fair Value	**Amortised Cost**	Fair Value	Amortised Cost
US government and agencies	**$733,861**	**$744,753**	$860,839	$869,655
Non-US governments	**338,525**	**342,150**	378,339	381,449
Corporate securities	**424,901**	**426,167**	277,575	281,500
Asset-backed securities	**535,718**	**535,974**	208,141	209,949
Mortgage-backed securities	**636,432**	**636,916**	19,149	19,415
Total fixed maturities	**$2,669,437**	**$2,685,960**	$1,744,043	$1,761,968

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

	2006		2005	
	Amortised Cost	**%**	Amortised Cost	%
US government and agencies	**$744,753**	**28%**	$869,655	49%
Non-US governments	**342,150**	**13%**	381,449	22%
AAA	**1,156,200**	**43%**	337,923	19%
AA	**165,875**	**6%**	74,210	4%
A	**263,875**	**10%**	98,731	6%
BBB	**12,513**	**–%**	–	–%
Other	**594**	**–%**	–	–%
Total fixed maturities	**$2,685,960**	**100%**	$1,761,968	100%

The gross unrealised gains and losses related to fixed maturities at 31 December 2006 and 2005 are as follows:

	2006		2005	
	Gross unrealised gains	**Gross unrealised losses**	Gross unrealised gains	Gross unrealised losses
US government and agencies	**$540**	**$11,432**	$925	$9,742
Non-US governments	**261**	**3,886**	315	3,425
Corporate securities	**486**	**1,752**	33	3,958
Asset-backed securities	**240**	**495**	101	1,908
Mortgage-backed securities	**756**	**1,241**	–	266
Total fixed maturities	**$2,283**	**$18,806**	$1,374	$19,299

There were no other than temporary declines in the value of investments in the year to 31 December 2006 or 2005. The net realised losses on fixed maturities for the year ended 31 December 2006 were $17,236 (2005: $1,314).

The following is an analysis of how long each of the fixed maturities that were in an unrealised loss position as at 31 December 2006 had been in a continual loss position. This information concerns the potential effect upon future earnings and financial position should management later conclude that some of these current unrealised losses represent other than temporary declines in the value of the securities.

	Less than 12 months		Equal to or greater than 12 months	
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses
US government and agencies	$323,295	$6,104	$176,196	$5,328
Non-US governments	227,473	2,231	65,251	1,655
Corporate securities	186,233	1,106	33,676	646
Asset-backed securities	121,402	428	5,375	67
Mortgage-backed securities	188,623	961	18,932	280
Total fixed maturities	$1,047,026	$10,830	$299,430	$7,976

Over 80 per cent of the unrealised losses at 31 December 2006 related to 40 securities. The securities in an unrealised loss position as at 31 December 2006 have been reviewed by the Group with regard to the severity and duration of the losses, and to the nature of the investments and of the issuers. On this basis, the Group has determined that the unrealised losses are temporary.

Proceeds from the sales and maturities of fixed maturities during 2006 were $2,122,297 (2005: $1,523,854). Proceeds from the sales and maturities of short-term investments during 2006 were $102,219 (2005: $429,616). Gross gains of $1,705 (2005: $5,962) and gross losses of $18,896 (2005: $7,469) were realised on sales of fixed maturities and short-term investments in 2006.

Mortgage-backed securities issued by US government agencies are combined with all other asset-backed securities and are included in the category 'asset-backed securities'. Approximately 15 per cent (2005: 8 per cent) of the total asset-backed holdings at 31 December 2006 are represented by investments in SallieMae, Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation bonds. The remainder of the asset-backed exposure consists of non-government asset-backed securities, the majority of which provide a planned structure for principal and interest payments and carry a 'AAA' rating by the major credit rating agencies.

The Group did not have an aggregate investment in a single entity, other than the US government securities, in excess of 10 per cent of total investments at 31 December 2006 and 2005.

Fixed maturities at 31 December 2006, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

	Fair value	Amortised cost
Due in one year or less	$153,195	$153,814
Due after one through five years	878,786	884,981
Due after five years through ten years	451,594	460,352
Due after ten years	13,712	13,923
	1,497,287	1,513,070
Asset-backed securities	535,718	535,974
Mortgage-backed securities	636,432	636,916
Total	$2,669,437	$2,685,960

Investment in funds

The Group has classified its investment in funds as a trading security and, accordingly, all realised and unrealised gains and losses on this investment are recorded in net income. This investment comprises investments in a fixed maturities fund, an equity fund and a fund of hedge funds. The change in fair value of the investment in funds is recorded in as net investment income. The amount of net investment income for the year to 31 December 2006 that relates to investment in funds still held at the year end was $2,960 (2005: $nil).

Net investment income

The components of net investment income for the years ended 31 December 2006 and 2005 are as follows:

	2006	2005
Interest income	**$102,438**	$71,153
Amortisation of premium/discount	**6,185**	12,371
Equity in income of associate	**1,275**	1,343
Change in fair value of investment in funds	**2,960**	–
Gross investment income	**112,858**	84,867
Investment expenses	**(7,571)**	(2,720)
Net investment income	**$105,287**	$82,147

Restricted assets

The Group is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. These funds on deposit are available to settle insurance and reinsurance liabilities. The Group also has investments in segregated portfolios primarily to provide collateral or guarantees for Letters of Credit ('LOC'), as described in Note 10. Finally, the Group also utilises trust funds where the trust funds are set up for the benefit of the ceding companies, and generally take the place of LOC requirements.

The total value of these restricted assets by category at 31 December 2006 and 2005 are as follows:

	2006	2005
Fixed maturities, available for sale	**$1,666,967**	$741,281
Short-term investments	**10,951**	6,957
Cash and cash equivalents	**751,908**	98,873
Total restricted assets	**$2,429,826**	$847,111

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 $124,486 (2005: $nil) of securities on loan at 31 December 2006.

6 Investment in associate

The Group, through Catlin Inc., one of its US subsidiaries, has a 25 per cent membership interest in Southern Risk Operations, L.L.C. ('SRO') which is accounted for using the equity method. The Group received cash distributions from SRO during the year ended 31 December 2006 of $1,452 (2005: $1,418). The share of SRO's profit included within the Consolidated Statement of Operations during 2006 was $1,275 (2005: $1,343). In management's opinion, the fair value of SRO is not less than its carrying value.

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 claims for losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves is complex and imprecise, requiring the use of informed estimates and judgments. The Group's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in earnings in the period in which the estimates are changed. Management believes they have made a reasonable estimate of the level of reserves at 31 December 2006 and 2005.

The reconciliation of unpaid losses and loss expenses for the years ended 31 December 2006 and 2005 is as follows:

	2006	2005
Gross unpaid losses and loss expenses, beginning of year	**$1,995,485**	$1,472,819
Reinsurance recoverable on unpaid loss and loss expenses	**(575,522)**	(359,154)
Net unpaid losses and loss expenses, beginning of year	**1,419,963**	1,113,665
Net incurred losses and loss expenses for claims related to:		
Current year	**679,115**	959,492
Prior years	**2,434**	(94,207)
Total net incurred losses and loss expenses	**681,549**	865,285
Net paid losses and loss expenses for claims related to:		
Current year	**(64,247)**	(115,128)
Prior year	**(528,661)**	(363,449)
Total net paid losses and loss expenses	**(592,908)**	(478,577)
Foreign exchange and other	**86,607**	(80,410)
Business combinations[1]	**1,413,026**	–
Net unpaid losses and loss expenses, end of year	**3,008,237**	1,419,963
Reinsurance recoverable on unpaid loss and loss expenses	**996,896**	575,522
Gross unpaid losses and loss expenses, end of year	**$4,005,133**	$1,995,485

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

As a result of the changes in estimates of insured events in prior years, the 2006 reserve for losses and loss expenses net of reinsurance recoveries increased by $2,434 (2005: decrease of $94,207). In 2006 the increase was due to a deterioration of $52,454 in respect of the 2005 hurricanes and $29,400 in respect of a South African motor loss, offset by positive development in respect of recent underwriting years over a number of business classes. In 2005, the decrease was due to changes in estimates of insured events in previous years resulting from reductions of expected ultimate loss costs, settlement of losses at amounts below previously estimated loss costs and reduction in uncertainty surrounding the quantification of the net cost of claim events.

2005 hurricanes

The table below shows the Group's estimated ultimate loss as at 31 December 2006, showing separately the amounts assumed in 2006 as part of the acquisition of Wellington described in Note 3.

	Legacy Wellington	Legacy Catlin	**2006 Total**	2005
Gross losses	$987,017	$674,881	**$1,661,898**	$615,097
Reinsurance recoveries	(654,076)	(288,921)	**(942,997)**	(281,591)
Net loss prior to reinsurance costs	332,941	385,960	**718,901**	333,506
Net reinstatements due on ceded business	69,674	51,040	**120,714**	48,258
Reinsurance restatements on assumed business	(24,087)	(38,087)	**(62,174)**	(31,540)
Net loss	$378,528	$398,913	**$777,441**	$350,224

The figures above represent management's best estimate of the likely final losses to the Group from the three hurricanes: Katrina, Rita and Wilma. 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 2005 hurricanes, management have particularly considered sensitivities relating to gross losses on direct and reinsurance accounts, underlying loss experience of cedants and reinsurance coverage and security issues.

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:

	2006		2005	
	Premiums written	**Premiums earned**	Premiums written	Premiums earned
Direct	**$1,154,851**	**$1,070,621**	$953,172	$992,181
Assumed	**450,168**	**434,417**	433,428	427,515
Ceded	**(194,896)**	**(179,177)**	(197,501)	(203,254)
Net premiums	**$ 1,410,123**	**$1,325,861**	$1,189,099	$1,216,442

The Group's provision for reinsurance recoverable as at 31 December 2006 and 2005 is as follows:

	2006	2005
Gross reinsurance recoverable	$1,284,322	$631,957
Provision for uncollectible balances	(46,791)	(24,511)
Net reinsurance recoverable	$1,237,531	$607,446

The Group evaluates the financial condition of its reinsurers and potential reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. All current reinsurers have a financial strength rating of at least 'A' from Standard & Poor's or 'A-' from A. M. Best, or provide appropriate collateral. However, certain reinsurers from prior years have experienced reduced ratings which has led to the need for the provision. At 31 December 2006, there were five reinsurers which accounted for 5 per cent or more of the total reinsurance recoverable.

	% of reinsurance recoverable	AM Best Rating
Hanover Ruck AG	11%	A
Munich Re	11%	A+
National Indemnity Company	7%	A++
GE Frankona Ruck AG	7%	A
Allianz Global Corporate & Speciality AG	5%	A

At 31 December 2006, the Group had a deposit with reinsurer of $nil (2005: $21,823) with Max Re, which is rated A- by A. M. Best. This relates to a whole account stop loss contract that covers the Group's underwriting at Lloyd's for the 2001 and prior underwriting years. The reinsurance contract is retroactive in nature and as a result, premiums paid are accounted as a deposit. The deferred gain under the contract of $nil (2005: $6,898) is recognised in income as recoveries are made. During 2006, $6,898 of the deferred gain was recognised in income (2005: $11,380). Assets equivalent in value to the amount accounted as a deposit were held by an independent trustee for the benefit of the reinsured syndicates.

9 Derivative financial instruments

Catastrophe swap agreement

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

The Cat Swap responds to certain covered risk events occurring during a three-year period. No payment will be made for the first three such risk events. Bay Haven will pay Catlin Bermuda $33.375 million per covered risk event thereafter, up to a maximum of six events. The aggregate limit potentially payable to Catlin Bermuda is $200.25 million.

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

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

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

The Cat Swap falls within the scope of SFAS 133 ("Accounting for Derivative Instruments and Hedging Activities" as amended ("SFAS 133") and is therefore measured in the balance sheet at fair value with any changes in the fair value included in earnings. As at 31 December 2006, the fair value of the Cat Swap is a liability of $619. As there is no quoted market value available for this derivative, the fair value is determined by management using internal models based on the valuation of the Class A and Class B notes issued by Bay Haven, which are publicly quoted. The fair value model takes into account changes in the market for catastrophe reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date.

Other derivative instruments

On acquisition of Wellington, the Group acquired various foreign currency derivatives (forward contracts, caps and collars) and options to purchase shares in Aspen Insurance Holdings Ltd. As at 31 December 2006, the fair value of the foreign currency derivatives was $24,847, of which $18,324 had a remaining term of less than 12 months, and the fair value of the Aspen options was $21,190.

10 Notes payable, debt and financing arrangements

The Group's outstanding debt as at 31 December 2006 and 2005 consisted of the following:

	2006	2005
Notes payable		
Revolving bank facility, due 22 January 2007	**$50,000**	$50,000
Total notes payable	**50,000**	50,000
Subordinated debt[1]		–
Variable rate, face amount €7,000, due 15 March 2035	**10,032**	–
Variable rate, face amount $27,000, due 15 March 2036	**29,274**	–
Variable rate, face amount $31,300, due 15 September 2036	**34,103**	–
Variable rate, face amount $9,800, due 15 September 2036	**10,677**	–
Variable rate, face amount €11,000, due 15 September 2036	**15,850**	–
Total subordinated debt	**99,936**	–
Bridge financing	**500,290**	–
Total debt	**$650,226**	$50,000

1 Debt instruments acquired in business combination

Future interest payments on notes payable and bridge financing as at 31 December 2006 are $3,185, due in 2007. Future annual interest payments on subordinated debt, estimated at interest rates in effect at 31 December 2006, are $7,345.

The Group paid $2,655 in interest during the year ended 31 December 2006 (2005: $2,113).

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

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

Bridge financing
On 30 October 2006 Catlin entered into a bridge financing arrangement with JP Morgan Cazenove under which it could borrow up to $500 million. On 27 and 28 December 2006 Catlin borrowed $325 and $175 million, respectively, under this bridge facility to partially finance the Wellington acquisition. The interest rate on this bridge loan is based on three-month Libor plus 45 basis points. The weighted average interest rate on the bridge loan at 31 December 2006 is 5.8 per cent. As at 31 December 2006 the Group had a balance of $500.3 million outstanding on this facility.

The bridge financing was repaid with the proceeds of the non-cumulative perpetual preferred shares in January 2007, described in Note 21.

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

- Debt outstanding was $50,000, in the form of a 364-day $50,000 revolving facility with a one year term-out option ('Facility A'). Facility A, while not directly collateralised, is secured by floating charges on Group assets and cross guarantees from material subsidiaries. This debt bears interest at three-month Libor plus 65 basis points, and the Group is required to maintain free and unencumbered assets consisting of OECD Government Bonds, US Agencies and Corporate Bonds, discounted by 10 per cent, sufficient to repay the loan at any time. The undrawn portion of Facility A costs 25 basis points per annum. This loan, which is available under one-, two- or three-month renewal periods, can be repaid at any time at the discretion of the Group in increments of $10 million. The Group has the option to extend the revolving facility for 364 days, or to convert all cash advances into a term loan. This loan was repaid including interest on 22 January 2007.
- A clean, irrevocable standby LOC of $294,000 (£150,000) is provided to support CSL's underwriting at Lloyd's ('Facility B'). As at 31 December 2006, CSL has utilised Facility B and deposited with Lloyd's an LOC in the amount of $294,000 (£150,000). In the event that CSL failed to meet its obligations under policies of insurance written on its behalf, Lloyd's could draw down this letter of credit. This LOC has an initial expiry date of 27 November 2010. Collateral of $78,400 (£40,000) was provided in 2006.
- A two-year $350 million standby LOC facility is available for utilisation by Catlin Bermuda and Catlin UK ('Facility C'). It is split into two equal tranches of $175 million with the first being fully secured by OECD Government Bonds, US Agencies and or cash discounted at varying rates. The second tranche is unsecured. At 31 December 2006, $106,922 in LOCs were outstanding, of which $103,639 are issued for the benefit of Catlin Bermuda, with a single LOC of $3,283 (£1,675) being for the benefit of Catlin UK.

The terms of the Club Facility require that certain financial covenants be met on a quarterly basis through the filing of Compliance Certificates. These include maximum levels of possible exposures to realistic disaster scenarios for the Group, as well as requirements to maintain minimum Tangible Net Worth and Adjusted Tangible Net Worth levels, the calculations of which are based upon fixed amounts in 2006 and increase over time, for items such as consolidated net income in future accounting periods. The Group was in compliance with all covenants during 2006.

At 31 December 2006 a Wellington bank facility was still in existence. Wellington had deposited with Lloyd's unsecured LOCs totalling $147,000 (£75,000). In February 2007, these unsecured letters of credit were cancelled and replaced with letters of credit issued under the Group's Facility B described above.

11 Intangible assets and goodwill

Net intangible assets and goodwill as at 31 December 2006 and 2005 consist of the following:

	Goodwill	Indefinite life intangibles	Finite life intangibles	Total
Gross value at 1 January 2005	$36,099	–	$64,302	$100,401
Accumulated amortisation	(19,869)	–	(9,294)	(29,163)
Net value at 1 January 2005	16,230	–	55,008	71,238
Movements during 2005:				
Reclassification of intangible asset	–	54,337	(54,337)	–
Additions	–	–	51	51
Foreign exchange adjustment	(1,317)	(5,660)	(2)	(6,979)
Write off	–	–	(671)	(671)
Total movements during 2005	(1,317)	48,677	(54,959)	(7,599)
Gross value at 31 December 2005	32,805	56,966	49	89,820
Accumulated amortisation	(17,892)	(8,289)	–	(26,181)
Net value at 31 December 2005	$14,913	$48,677	$49	$63,639
Movements during 2006:				
Business combination	68,970	461,580	10,976	541,526
Additions	704	253,446	325	254,475
Foreign exchange revaluation	1,648	6,792	21	8,461
Amortisation charge	–	–	(75)	(75)
Total movements during 2006	71,322	721,818	11,247	804,387
Gross value at 31 December 2006	106,498	779,941	11,376	897,815
Accumulated amortisation	(20,263)	(9,446)	(80)	(29,789)
Net value at 31 December 2006	$86,235	$770,495	$11,296	$868,026

Neither goodwill nor intangibles were impaired in 2006 or 2005.

Goodwill, purchased syndicate capacity and admitted licenses are considered to have an indefinite life and as such are subject to annual impairment testing.

The Group's intangibles relate to the purchase of syndicate capacity, customer relationships, distribution channels and admitted as well as surplus lines licenses.

Distribution channels and surplus lines licenses are considered to have a finite life and are amortised over their estimated useful lives of five years. Amortisation of intangible assets for the next five years at current exchange rates will amount to approximately $2,275 per annum.

Purchased syndicate capacity

Lloyd's syndicate capacity purchased in 2002 amounted to $50,959. The acquisition of the syndicate capacity gives the Group benefits that relate to the value of future income streams estimated to arise from business originally underwritten by members of Syndicate 1003, which was assumed by Syndicate 2003, and which was capitalised by CSL in the 2003 Lloyd's underwriting year. The acquisition also gives the Group a valuable ability to generate additional profits as a consequence of the underwriting capital and management flexibility, which results from the acquisition of the third-party capacity. The whole of the consideration has been allocated to these intangible assets.

In connection with the Wellington acquisition, the Group purchased Wellington's 67 per cent share of the underwriting capacity of Syndicate 2020. A portion of the purchase price of Wellington has been allocated to this capacity (see Note 3 for further details).

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

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

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

12 Taxation

Bermuda

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

United Kingdom

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

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

United States

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

Other international income taxes

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

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

The income tax expense for the years ended 31 December 2006 and 2005 is as follows:

	2006	2005
Current tax (benefit)/expense	**$(5,438)**	$6,477
Deferred tax expense	**22,044**	1,526
Expense for income taxes	**$16,606**	$8,003

The weighted average expected tax expense has been calculated using pre-tax accounting income/(loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. The weighted average tax rate for the Group is 6.0 per cent (2005: 29.9 per cent). A reconciliation of the difference between the expense for income taxes and the expected tax expense at the weighted average tax rate for the years ended 31 December 2006 and 2005 is provided below.

	2006	2005
Expected tax expense at weighted average rate	**$1,889**	$8,307
Permanent differences:		
Disallowed expenses	**474**	1,149
(Over)/under accrual of tax in prior periods	**(1,297)**	262
Items taxed in previous years	**–**	(1,212)
Specific contingency provision	**15,540**	–
Other	**–**	(503)
Expense for income taxes	**$16,606**	$8,003

The components of the Group's net deferred tax liability as at 31 December 2006 and 2005 are as follows:

	2006	2005
Deferred tax assets:		
Net operating loss carryforwards	**$73,346**	$7,462
Future UK double tax relief	**7,953**	7,507
Whole account stop loss	**–**	2,069
Deep discount security unwind	**770**	1,201
Accelerated capital allowances	**1,137**	488
Compensation accruals	**5,080**	–
Cumulative translation adjustment	**–**	4,447
Syndicate capacity amortisation and other	**156**	2,022
Total deferred tax assets	**$88,442**	$25,196
Deferred tax liabilities:		
Intra-Group financing charges	**(8,932)**	–
Untaxed profits	**(104,030)**	(29,377)
Intangible assets arising on business combinations	**(127,017)**	–
Net deferred tax liability	$(151,537)	$(4,181)

As at 31 December 2006, a deferred tax asset of $2,184 (2005: $nil) and a deferred tax liability of $153,721 (2005: $4,181) are recognised in the balance sheet. No valuation allowance was necessary as at 31 December 2006 and 2005.

As at 31 December 2006, the Group has net operating loss carryforwards of approximately $243,401, which are available to offset future taxable income (2005: $24,873). The net operating loss carryforwards primarily arise in the UK subsidiaries where they are expected to be fully utilised. There are no time restrictions on the utilisation of these losses.

13 Stockholders' equity

The following is a detail of the number and par value of common shares authorised, issued and outstanding as at 31 December 2006 and 2005:

	Authorised		Issued and outstanding	
	Number of shares	Par value $000	Number of shares	Par value $000
Ordinary common shares, par value $0.01 per share				
As at 31 December 2006	400,000,000	$4,000	238,283,281	$2,383
As at 31 December 2005	250,000,000	$2,500	155,914,616	$1,559

The following table outlines the changes in common shares issued and outstanding during 2006 and 2005:

	2006	2005
Balance, 1 January	**155,914,616**	154,097,989
Exercise of stock options and warrants	**249,108**	1,816,627
Equity raise	**7,704,900**	–
Business combination	**74,414,657**	–
Balance, 31 December	**238,283,281**	155,914,616

Equity raise

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

Business Combination

As described more fully in Note 3, the Group has issued 74,414,657 common shares as at 31 December 2006 to former holders of Wellington shares in connection with the acquisition of Wellington.

Treasury stock

In connection with the Performance Share Plan ('PSP'), at each dividend date, an amount equal to the dividend that would be payable in respect of the shares to be issued under the PSP (assuming full vesting), is paid into an Employee Benefit Trust (EBT). The EBT uses these funds to purchase Group'shares on the open market. These shares will ultimately be distributed to PSP holders to the extent that the PSP awards vest. During 2006, the Group, through the EBT, purchased 155,155 of the Group's shares, at an average price of $8.72 (£4.65) per share. The total amount paid of $1,352 is shown as a deduction to stockholders' equity.

Wellington also had an EBT which held shares in Wellington. The EBT accepted the Offer and therefore at year end, it held 555,768 of the Group's shares at a price of $9.44 (£4.99) per share.

Dividends

On 12 June 2006, the Group paid a final dividend relating to the 2005 financial year of $0.176 (£0.101) per share to shareholders of record at the close of business on 12 May 2006. The total dividend paid for the 2005 financial year was $0.275 (£0.155) per share.

On 10 November 2006, the Group paid an interim dividend relating to the 2006 financial year of $0.113 per share (£0.060 per share) to shareholders of record as at 13 October 2006.

14 Employee stock compensation schemes

The Group has two stock compensation schemes in place under which awards are outstanding: a Performance Share Plan, which was adopted in 2004, and a Long Term Incentive Plan, adopted in 2002. These financial statements include the total cost of stock compensation for both plans, calculated using the fair value method of accounting for stock-based employee compensation. The total cost of the plans expensed in the year ended 31 December 2006 was $11,000 (2005: $4,246). Remaining stock compensation to be expensed in future periods relating to these plans is $20,913.

Performance Share Plan ('PSP')

On 9 March 2006, a total of 2,020,301 options with $nil exercise price and 275,296 non-vested shares (total of 2,295,597 securities) were granted to Group employees under the PSP. Up to half of the securities will vest on 9 March 2009 and up to half will vest on 9 March 2010, subject to certain performance conditions.

These securities have been treated as non-vested shares and as such have been measured at their fair value as if they were vested and issued on the grant date, excluding the impact of performance vesting conditions. Performance vesting conditions are included in assumptions about the number of non-vested shares that employees will ultimately receive. This estimate is revised at each balance sheet date and the difference is charged or credited to the income statement, with a corresponding adjustment to equity. The current vesting conditions assume that employees will ultimately receive 100 per cent of granted securities and that the annual attrition rate is 3 per cent. The total number of PSP securities outstanding at 31 December 2006 was 4,429,075 and the total compensation expense relating to the PSP for the year ended 31 December 2006 was $9,669.

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

	2006	2005
Outstanding, beginning of period	**2,203,786**	–
Granted during year	**2,295,597**	2,223,959
Forfeited during year	**(72,497)**	(20,173)
Outstanding, end of period	**4,426,886**	2,203,786
Fair value per PSP security as at date of grant	**$8.71**	$7.13

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 an Employee Benefit Trust. This amount, totalling $1,306 in 2006, is treated as a deferred compensation obligation and as such is taken directly to retained earnings and capitalised in stockholders' equity within additional paid-in capital.

Long Term Incentive Plan ('LTIP')
Interests in a total of 16,051,613 ordinary common shares were granted to eligible employees. The individual awards were divided into options with an exercise price of $5.00 and exercisable in four equal annual tranches, and options with exercise prices of $10.00, $12.50 and $15.00, exercisable on 1 July 2007. The total compensation expense relating to the LTIP for the year ended 31 December 2006 was $1,331.

The options vest on various dates as prescribed under LTIP plan documentation, but in any event all will have vested and will expire by 4 July 2012. The table below shows the vesting dates and the number of options that have vested on those dates:

Date	Number of options vesting
4 July 2003	1,576,110
6 April 2004 (IPO date)	4,815,484
4 July 2004	1,668,261
4 July 2005	1,655,158
4 July 2006	1,647,564
Total	11,362,577

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

	2006		2005	
	Number	**Weighted average exercise price ($)**	Number	Weighted average exercise price ($)
Outstanding, beginning of period	**15,979,915**	**9.68**	16,440,660	9.60
Exercised during year	**(544,500)**	**4.97**	(322,877)	5.05
Forfeited during year	**(164,736)**	**11.94**	(137,868)	11.27
Outstanding, end of period	**15,270,679**	**9.76**	15,979,915	9.68
Exercisable, end of period	**10,084,791**	**8.45**	9,005,511	8.94

Exercise price	Number of options outstanding	Average remaining contractual life (years)
$5.00	5,197,217	5.5
£3.50	322,155	5.5
$10.00	3,250,427	1.0
$12.50	3,250,427	1.0
$15.00	3,250,453	1.0
Total	15,270,679	2.5

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

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

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

Warrants
In 2002, the Company issued warrants to shareholders to purchase 20,064,516 common shares. Warrants may be exercised in whole or in part, at any time, until 4 July 2012 and are exercisable at a price per share of $5.00. No warrants were exercised during 2006. During 2005, warrants to purchase 5,120,465 common shares were exercised and settled net for 1,703,386 common shares, leaving warrants entitling the purchase of 14,944,051 common shares outstanding.

15 Earnings per share

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

Diluted earnings per share is calculated by dividing the earnings attributable to all shareholders by the weighted average number of common shares in issue adjusted to assume conversion of all dilutive potential common shares. The company has the following potentially dilutive instruments outstanding during the periods presented:

(i) PSP;
(ii) LTIP; and
(iii) Warrants.

There is no difference between net income attributable to ordinary stockholders and net income attributable to all stockholders for the years ended 31 December 2006 and 2005.

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

	31 December 2006	31 December 2005
Weighted average number of shares	**162,598,043**	154,984,097
Dilution effect of warrants	**6,492,633**	5,101,067
Dilution effect of stock options and non-vested shares	**6,771,102**	2,013,603
Dilution effect of stock options and warrants exercised in the period	**213,223**	930,519
Weighted average number of shares on a diluted basis	**176,075,001**	163,029,285

Earnings per common share		
Basic	**$1.59**	$0.13
Diluted	**$1.47**	$0.12

Options to purchase 9,751,307 shares (2005: 9,903,849) under the LTIP were outstanding during the year but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. All securities awarded under the PSP were included in the computation of diluted earnings per share because the performance conditions necessary for these securities to vest were met as at 31 December 2006 (2005: 2,203,786 securities were excluded). Finally, the issuance of new shares in connection with the acquisition of Wellington had a minimal dilutive effect on earnings per common share because it happened very late in the year.

16 Other comprehensive loss

The following table details the tax effect of the individual components of other comprehensive loss for 2006 and 2005:

2006	**Amount before tax**	**Tax benefit/ (expense)**	**Amount after tax**
Unrealised gains arising during year	**$18,684**	**$(5,750)**	**$12,934**
Less reclassification for losses realised in income	**(17,041)**	**3,564**	**(13,476)**
Net unrealised gains on investments	**1,643**	**(2,186)**	**(542)**
Cumulative translation adjustments	**(9,055)**	**4,907**	**(4,149)**
Change in accumulated other comprehensive loss	**$(7,412)**	**$2,721**	**$(4,691)**

2005	Amount before tax	Tax benefit/ (expense)	Amount after tax
Unrealised losses arising during year	$(27,495)	$2,400	$(25,095)
Less reclassification for losses realised in income	(1,520)	582	(938)
Net unrealised losses on investments	(29,015)	2,982	(26,033)
Cumulative translation adjustments	1,361	(883)	478
Change in accumulated other comprehensive loss	$(27,654)	$2,099	$(25,555)

17 Pension commitments

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

In the UK, the 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 $4,184 for the year ended 31 December 2006 (2005: $3,265).

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 $683 for the year ended 31 December 2006 (2005: $470).

In the US, Catlin Inc. has adopted a Profit Sharing Plan ('the Plan') qualified under the Internal Revenue Code in which all employees meeting specified minimum age and service requirements are eligible to participate. Contributions are made to the Plan as determined by the Board of Directors of Catlin Inc. on an annual basis and are allocated on a pro rata basis to individual employees based upon eligible compensation. The pension cost for the Plan was $567 for the year ended 31 December 2006 (2005: $303).

In connection with the acquisition of Wellington, 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. The movements in the period are shown in the table below:

	2006
Change in projected benefit obligation:	–
Projected benefit obligation, beginning of year	–
Business combination	**32,720**
Projected benefit obligation, end of year	**$32,720**
Change in plan assets:	–
Fair value of plan assets, beginning of year	–
Business combination	**34,429**
Fair value of plan assets, end of year	**$34,429**
Reconciliation of funded status:	
Funded status	**$1,709**
Net pension asset recognised at year end	**$1,709**

The actuarial assumptions used to value the benefit obligation at 31 December 2006 were as follows:

Discount rate	**5.1%**
Price inflation	**5.1%**
Pension increases to pensions in payment	**3.2%**

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

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

As at 31 December 2006, 97 per cent of plan assets were held in debt securities, with the remaining 3 per cent held as cash. No plan assets are expected to be returned to the Group in the year ending 31 December 2007.

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

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

2007	$1,862
2008	$1,960
2009	$2,058
2010	$2,156
2011	$2,254
2012 to 2016 inclusive	$12,740

No contributions are expected to be paid to the defined benefit plan during 2007.

18 Statutory financial data

The Group's statutory capital and surplus was $1,459,950 at 31 December 2006 (2005: $909,134). The statutory surplus of each of its principal operating subsidiaries is far in excess of regulatory requirements.

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 5.

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. The Group has given guarantees to the providers under the previous Wellington credit facility 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 2006 are as follows:

2007	$9,784
2008	8,445
2009	5,693
2010	5,614
2011 and thereafter	33,978
Total	$63,514

Under non-cancellable sub-lease agreements, the group is entitled to receive future minimum sub-lease payments of $869 (2005: $nil).

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. All transactions were entered into on normal commercial terms. The cost of services purchased from Catlin Estates Limited during 2006 was $nil (2005: $201) and from Burnhope Lodge was $nil (2005: $23).

There were no material transactions between Catlin and Wellington prior to the business combination in December 2006.

Club Facility

During 2005 and until 4 October 2006, Barclays plc held interests in more than 10 per cent of the issued share capital of the Company. An affiliate of Barclays plc, Barclays Bank plc ('Barclays'), is one of the banks participating in the Club Facility, described in Note 10. Barclays participates equally with the other two banks in the Club Facility and, while Barclays plc held interests in more than 10 per cent of the issued share capital, Barclays received fees as follows:

- A participation fee of one third of 0.085 per cent on the total amount of the Club Facility;
- A fronting fee of 0.125 per cent per annum on the maximum actual and contingent liabilities of the other two banks under Facility C;
- A fronting agent/security trustee fee of $75 per annum plus $0.5 for each LOC issued, payable on a quarterly basis, once more than 75 LOCs are issued;
- A commitment fee of one third of 0.25 per cent per annum on Facility A, one third of 0.25 per cent per annum on Facility B and one third of 0.135 per cent per annum on Facility C, in each case payable on the undrawn portion of the relevant Facility;
- Interest of one third of LIBOR plus 0.65 per cent per annum plus mandatory costs on Facility A;
- Commission of one third of 1.2 per cent per annum, reducing to 0.3 per cent per annum in respect of securitised outstandings, on Facility B; and
- Commission of one third of 0.6 per cent per annum, reducing to 0.3 per cent per annum in respect of securitised outstandings, on Facility C.

In addition, Barclays was the Arranger for the Club Facility, and was paid a coordination fee of $150 for acting in that capacity.

Various subsidiaries of the Group also hold bank accounts with Barclays and its affilitiates, in the normal course of business. Management believes that all transactions with Barclays were conducted under normal commercial terms.

21 Subsequent events

Proposed dividend

On 8 March 2007, the Board approved a proposed final dividend of $0.328 per share (£0.17 per share), payable on 8 June 2007 to shareholders of record at the close of business on 11 May 2007. The final dividend is determined in US dollars but partially payable in sterling based on the exchange rate of £1=$1.93 on 7 March 2007.

Issuance of preferred shares

On 18 January 2007, the Group, through Catlin Bermuda, issued $600,000 of non-cumulative perpetual preferred shares at a dividend rate of 7.249 per cent. The proceeds were used to repay the $500,000 bridge facility as well as Facility A described in Note 10, and for general corporate purposes.

Issuance of common shares

As described in Note 3, at 31 December 2006 acceptances representing 88 per cent of Wellington's share capital subject to the Offer had been settled. The remaining Wellington shares subject to the Offer were settled in 2007, resulting in a further issuance of 11,679,637 shares.

Payment to Lloyd's

Wellington has agreed, without admission of wrongdoing or liability, to pay Lloyd's £16,071 to resolve an inquiry commenced by Lloyd's into the conduct of Wellington Underwriting Agencies Limited and Wellington (Five) Limited in the Lloyd's capacity auctions held during September 2006. The amount equates approximately to the difference, in aggregate, between the price received by sellers of Syndicate 2020 capacity in the auctions and the amount they would have received if they had not sold in the auction but had accepted the Syndicate cessation compensation offer of 50 pence per £1.00 of capacity. It is anticipated that the payment will be made before the end of the first quarter 2007.

Cat Swap

On 13 February 2007, Catlin Bermuda entered into a further $10,000 Cat Swap with ABN AMRO Bank N.V. London Branch which will respond to the third covered risk event (that is, the covered risk event before the Class B notes are triggered). The terms are otherwise as described for the third covered event entered into during 2006 as described in Note 9, except that the limit payable is $10,000.

Five Year Financial Summary

For the years ended 31 December 2006 and 2005 (US dollars in thousands, except share amounts)

	2006	2005	2004	2003	2002
Operational information					
Revenues					
Gross premiums written	**$1,605,019**	$1,386,600	$1,433,836	$1,198,214	$722,858
Net premiums earned	**1,325,861**	1,216,442	1,161,110	844,947	382,064
Net investment income and net realised gains on investments	**87,627**	80,627	50,332	24,947	17,091
Net realised gains/(losses) on foreign currency	**38,746**	(13,791)	8,865	10,024	6,728
Other income	**3,528**	741	759	52	326
Total revenues	**1,455,762**	1,284,019	1,221,066	879,970	406,209
Expenses					
Losses and loss expenses	**681,549**	865,285	660,437	424,625	308,623
Policy acquisition costs	**341,531**	305,539	302,791	250,111	100,494
Administrative and other expenses	**157,265**	85,530	83,896	58,884	25,424
Total expenses	**1,180,345**	1,256,354	1,047,124	733,620	434,541
Minority interest	**(22)**	–	–	–	–
Income tax (expense)/benefit	**(16,606)**	(8,003)	(19,886)	(19,337)	16,628
Net income/(loss)	**$258,789**	$19,662	$154,056	$127,013	($11,704)
Basic earnings per share	**$1.59**	$0.13	$1.31	$6.54	($5.90)
Diluted earnings per share	**$1.47**	$0.12	$1.00	$0.92	($5.90)
Basic weighted average shares outstanding[1]	**162,598,043**	154,984,097	117,379,304	15,000,000	12,221,538
Diluted weighted average shares outstanding[1]	**176,075,001**	163,029,285	154,158,785	137,657,099	12,221,538
Balance Sheet information					
Total cash and investments	**$5,013,709**	$2,371,360	$1,982,712	$1,237,215	$770,504
Total assets	**8,606,318**	3,859,983	3,373,126	2,392,464	1,730,273
Unpaid losses and loss expenses	**4,005,133**	1,995,485	1,472,819	962,535	695,168
Unearned premiums	**1,290,379**	663,659	722,891	612,325	375,952
Total stockholders' equity	**2,018,280**	931,081	971,187	638,637	508,987
Key statistics					
Loss ratio	**51.4%**	71.1%	56.9%	50.3%	80.8%
Expense ratio	**36.8%**	32.0%	32.5%	35.7%	32.0%
Combined ratio	**88.2%**	103.1%	89.4%	86.0%	112.8%
Return on average equity	**24.2%**	2.1%	19.1%	21.1%	(4.2%)
Effective tax rate	**6.0%**	28.9%	11.4%	13.2%	NM

1 For 2003 and prior years reflects the effect of both the 19 for 1 bonus issue and subsequent 100 into 1 share consolidation as if such events had occurred at the beginning of the period indicated.

Shareholder and Investor Relations Information

Share price
The Company's common shares (trading symbol 'CGL') are listed on the London Stock Exchange under 'Insurance'. Prices are published daily in UK newspapers including the Financial Times, The Times, The Daily Telegraph, The Independent and the Evening Standard.

ISAs and PEPs
The Company's shares qualify to be held as equities in Individual Savings Accounts ('ISAs') and in registered pension schemes, including Self Invested Pension Plans (SIPPS) and Personal Equity Plans ('PEPs'), in the United Kingdom.

ADRs
The Company's American Depositary Receipts ('ADRs') trade on the 'Over-the-Counter' ('OTC') market under the following details:

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

Shareholder and investor enquiries, registrar and website
Shareholders should contact our Investor Relations Department (Telephone: +44 (0)20 7458 5726; E-mail: investor.relations@catlin.com) if they have questions about the Group. For enquiries concerning share or depository interest registration, please contact the Company's registrar, Capita IRG (Telephone: 0870 162 3100 in the UK; +44 (0)20 8639 2157 elsewhere).

Further information about Catlin can be found at the Group's website: www.catlin.com.

Dividends
The final dividend for the year ended 31 December 2006 is payable on 8 June 2007 to shareholders of record at the close of business on 11 May 2007, subject to shareholders' approval at the Annual General Meeting on 24 May 2007. The dividend is payable in sterling, except for shareholders who have elected as at the date of this report (8 March 2007) to receive their dividends in US dollars.

Shareholders who have not previously elected to receive dividends in US dollars and who wish to do so in the future should contact the Company's registrar, Capita IRG (Telephone: 0870 162 3100 in the UK; +44 (0)20 8639 2157 elsewhere).

Dividends on the Company's ADRs are payable in US dollars by the ADR depository bank.

Results presentations
The Company's presentations to investment analysts are usually accessible via a webcast. Details are placed on the Company's website, or interested parties may e-mail or telephone using the details above. Please note that the availability of these services may in certain cases be restricted for regulatory reasons.

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