Catlin Insurance Company Ltd.

Consolidated Financial Statements

For the Years Ended 31 December 2009 and 2008
(Expressed in US dollars)

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To the Board of Directors and the Stockholder of Catlin Insurance Company Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, consolidated statements of changes in stockholder's equity, consolidated statements of cash flows and notes to the financial statements present fairly, in all material respects, the financial position of Catlin Insurance Company Ltd. and its subsidiaries at December 31, 2009 and December 31, 2008 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

PricewaterhouseCoopers
Bermuda
March 23, 2010

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Catlin Insurance Company Ltd.
Consolidated Balance Sheets
As at 31 December 2009 and 2008
(US dollars in millions)

	2009	2008
Assets		
Investments		
Fixed maturities, at fair value	$3,867	$2,708
Short-term investments, at fair value	796	69
Investments in funds, at fair value	530	801
Total investments	5,193	3,578
Cash and cash equivalents	2,481	2,353
Securities lending collateral	15	33
Accrued investment income	32	31
Premiums and other receivables	1,133	1,080
Reinsurance recoverable	1,441	1,226
Reinsurers' share of unearned premiums	213	302
Deferred policy acquisition costs	292	247
Intangible assets and goodwill	718	651
Catastrophe swaps, at fair value	1	7
Other assets	141	145
Total assets	$11,660	$9,653
Liabilities and Stockholder's Equity		
Liabilities:		
Reserves for losses and loss expenses	$5,392	$4,606
Unearned premiums	1,724	1,536
Reinsurance payable	653	476
Accounts payable and other liabilities	275	237
Subordinated debt	97	98
Foreign exchange derivatives, at fair value	-	17
Securities lending payable	15	33
Deferred tax liability (net)	234	176
Due to parent	13	72
Total liabilities	$8,403	$7,251

Catlin Insurance Company Ltd.
Consolidated Balance Sheets (continued)
As at 31 December 2009 and 2008
(US dollars in millions)

	2009	2008
Stockholder's equity		
Common stock	$1	$1
Preferred stock	590	590
Additional paid-in capital	1,723	1,500
Accumulated other comprehensive loss	(189)	(301)
Retained earnings	1,132	612
Total stockholder's equity	3,257	2,402
Total liabilities and stockholder's equity	$11,660	$9,653

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

Catlin Insurance Company Ltd.
Consolidated Statements of Operations

For the years ended 31 December 2009 and 2008
(US dollars in millions, except per share amounts)

	2009	2008
Revenues		
Gross premiums written	$3,715	$3,437
Reinsurance premiums ceded	(547)	(826)
Net premiums written	3,168	2,611
Change in net unearned premiums	(250)	(15)
Net premiums earned	2,918	2,596
Net investment return	414	(91)
Change in fair value of catastrophe swaps	(31)	(13)
Net realised gains/(losses) on foreign currency exchange	26	(18)
Other income	8	18
Total revenues	3,335	2,492
Expenses		
Losses and loss expenses	1,681	1,632
Policy acquisition costs	586	510
Administrative and other expenses	439	333
Financing costs	15	17
Total expenses	2,721	2,492
Net income/(loss) before income tax	614	-
Income tax (expense)/benefit	(50)	10
Net income	564	10
Preferred stock dividend	(44)	(44)
Net income/(loss) to common stockholder	$520	$(34)

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

Catlin Insurance Company Ltd.
Consolidated Statements of Changes in Stockholders' Equity
For the years ended 31 December 2009 and 2008
(US dollars in millions)

	Common stock	Preferred stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholder's equity
Balance 1 January 2008	$1	$590	$1,500	$38	$632	$2,761
Comprehensive income:						
Cumulative effect of adoption of the fair value option	-	-	-	(14)	14	-
Net loss to common stockholder	-	-	-	-	(34)	(34)
Other comprehensive loss	-	-	-	(325)	-	(325)
Total comprehensive loss	-	-	-	(339)	(20)	359
Balance 31 December 2008	$1	$590	$1,500	$(301)	$612	$2,402
Comprehensive income:						
Net income to common stockholder	-	-	-	-	520	520
Other comprehensive income	-	-	-	112	-	112
Total comprehensive income	-	-	-	112	520	632
Capital contribution from parent	-	-	223	-	-	223
Balance 31 December 2009	$1	$590	$1,723	$(189)	$1,132	$3,257

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

Catlin Insurance Company Ltd.
Consolidated Statements of Cash Flows
For the years ended 31 December 2009 and 2008
(US dollars in millions)

	2009	2008
Cash flows provided by/(used in) operating activities		
Net income	$564	$10
Adjustments to reconcile net income/(loss) to net cash provided by operations:		
Amortisation and depreciation	17	22
Amortisation of net discounts of fixed maturities	(10)	(4)
Net (gains)/losses on investments	(232)	324
Cessation of Syndicate 2020	112	-
Changes in operating assets and liabilities		
Reserves for losses and loss expenses	36	731
Unearned premiums	147	158
Premiums and other receivables	(15)	(124)
Deferred policy acquisition costs	(36)	(24)
Reinsurance payable	159	285
Reinsurance recoverable	28	(355)
Reinsurers' share of unearned premiums	103	(122)
Accounts payable and other liabilities	8	34
Deferred taxes	27	14
Other	(47)	(17)
Net cash flows provided by operating activities	861	932
Cash flows used in investing activities		
Purchases of fixed maturities	(2,163)	(1,393)
Proceeds from sales of fixed maturities	1,291	1,360
Proceeds from maturities of fixed maturities	117	50
Net purchases, sales and maturities of short-term investments	(722)	(21)
Net settlements of futures and options	-	-
Purchases of investment in funds	(17)	(84)
Redemptions of investments in funds	547	7
Cash flows arising from investment in associate	-	7
Net purchases and sales of property and equipment	(10)	(12)
Change in securities lending collateral	18	12
Net cash flows used in investing activities	(939)	(74)

Catlin Insurance Company Ltd.
Consolidated Statements of Cash Flows (continued)
For the years ended 31 December 2009 and 2008
(US dollars in millions)

	2009	2008
Cash flows provided by/(used in) financing activities		
Dividends paid on preferred stock	(44)	(44)
Change in securities lending collateral payable	(18)	(12)
Contribution from parent	223	-
Due to parent	(59)	(189)
Net cash flows provided by/(used in) financing activities	102	(245)
Net increase in cash and cash equivalents	24	613
Effect of exchange rate changes	104	(313)
Cash and cash equivalents – beginning of year	2,353	2,053
Cash and cash equivalents – end of year	$2,481	$2,353
Supplemental cash flow information		
Taxes paid/(received)	$6	$(9)
Interest paid	$5	$7
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	$2,004	$2,026
Cash equivalents	$477	$327

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

1 Nature of operations

Catlin Insurance Company Ltd. ('Catlin' or the 'Company') is a Bermuda Class 4 licensed insurer, incorporated on 18 December 2000 under the laws of Bermuda. It is a wholly owned subsidiary of Catlin Group Limited ('the Group' or 'parent'), a Bermuda licensed holding company. The Company, together with its subsidiaries, ('CICL Group'), writes insurance and reinsurance on a global basis.

The CICL Group consists of four reporting segments:

- Catlin Syndicate, which operates at Lloyd's of London;
- Catlin Bermuda (Catlin Insurance Company Ltd.);
- Catlin UK (Catlin Insurance Company (UK) Ltd); and
- Catlin US, which is the trading name for the Company's various subsidiaries in the United States. Catlin US includes Catlin Inc. as well as two insurance companies: Catlin Insurance Company Inc. and Catlin Specialty Insurance Company Inc.

As at 31 December 2009, the CICL Group operates through underwriting hubs in London, Bermuda, United States, Asia-Pacific, Europe and Canada. The CICL Group currently has 47 offices in 20 countries.

CICL Group writes a broad range of products, including property, casualty, energy, marine and aerospace insurance and property, catastrophe and per-risk excess, non-proportional treaty, aviation, marine, casualty and motor reinsurance business. Business is written from many countries, although business from the United States predominates.

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 CICL Group's balance sheet that involve accounting estimates and actuarial determinations are reserves for losses and loss expenses, reinsurance recoverables, valuation of investments, intangible assets and goodwill. The accounting estimates and actuarial determinations are sensitive to market conditions, investment yields and other factors. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates and actual results may differ from the estimates used in preparing the consolidated financial statements, management believes the amounts recorded are reasonable. Certain insignificant reclassifications have been made to prior year amounts to conform to the 2009 presentation. There is no impact on net income or stockholder's equity.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All significant inter-company transactions and balances are eliminated on consolidation.

Reporting currency

The financial information is reported in United States dollars ('US dollars' or '$').

Fixed maturities and short-term investments
The CICL Group's fixed maturities and short-term investments are carried at fair value. The fair value is based on the quoted market price of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriter bid indications. Short-term investments are composed of securities with original maturities of more than 90 days and less than one year from the date of purchase.

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

All gains or losses on fixed maturities and short-term investments are included in net investment return in the Consolidated Statements of Operations.

Investments in funds
The CICL Group's investments in funds are carried at fair value. The fair value is based on either the net asset value provided by the funds' administrators or, where available, the quoted market price of the funds. Gains and losses resulting from changes in fair value are included within net investment return in the Consolidated Statements of Operations.

Derivatives
The CICL Group recognises derivative financial instruments as either assets or liabilities measured at fair value. Gains and losses resulting from changes in fair value are included in net income in the Consolidated Statements of Operations. None of the derivatives used are designated as accounting hedges.

The fair values of the catastrophe swap agreements described in Note 9 are determined by management using internal models based on the valuation of the underlying notes issued by the counterparty. The determination of the fair values takes into account changes in the market for catastrophic reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date.

The fair values of option contracts and equity index futures contracts described in Note 9 are based on prices provided by independent pricing services. Any open contracts at the balance sheet date are included in investments in funds in the Consolidated Balance Sheets. Gains and losses resulting from change in fair value are included in net investment return in the Consolidated Statements of Operations.

The fair values of foreign exchange derivatives described in Note 9 are based on prices provided by independent pricing services. Gains and losses on foreign exchange derivatives are included in net realised gains/(losses) on foreign currency exchange in the Consolidated Statements of Operations.

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

Securities lending
The CICL Group participates in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the loaned securities remain under the CICL Group's control and therefore remain on the CICL 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 CICL Group receives interest income on the invested collateral, which is included in net investment return in the Consolidated Statements of Operations.

Premiums
Premiums are recorded as written at the inception of each policy and are earned over the policy period. Accordingly, unearned premiums represent the portion of premiums written which is applicable to the unexpired risk portion of the policies in force.

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

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

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

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

Reserves for losses and loss expenses
A liability is established for unpaid losses and loss expenses when insured events occur. The liability is based on the expected ultimate cost of settling the claims. The reserve for losses and loss expenses includes: (1) case reserves for known but unpaid claims as at the balance sheet date; (2) incurred but not reported ('IBNR') reserves for claims where the insured event has occurred but has not been reported to the CICL Group as at the balance sheet date (and for additional development on reported claims in instances where the case reserve is viewed to be potentially insufficient); and (3) loss adjustment expense reserves for the expected handling costs of settling the claims.

Reserves for losses and loss expenses are established based on amounts reported from insureds or ceding companies and according to generally accepted actuarial 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 and the extent to which all claims have been reported. The process used in establishing reserves cannot be exact, particularly for liability and catastrophe related coverages, since actual claim costs are dependent upon such complex factors as inflation, changes in doctrines of legal liability and damage awards. The methods of making such estimates and establishing the related liabilities are periodically reviewed and updated and any adjustments required are reflected in the net income in the current year.

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

Reinstatement premiums payable are recorded and fully expensed as they fall due. Reinsurers' share of unearned premiums represents the portion of premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts in force.

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

Contract deposits
Contracts written by the CICL Group which are not deemed to transfer significant underwriting and/or timing risk are accounted for as contract deposits and are included in premiums and other receivables. Liabilities are initially recorded at an amount equal to the assets received and are included in accounts payable and other liabilities in the Consolidated Balance Sheets.

The CICL 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 CICL Group periodically reassesses the estimated ultimate liability. Any changes to this liability are reflected as an adjustment to interest expense to reflect the cumulative effect of the period the contract has been in force and by an adjustment to the future internal rate of return of the liability over the remaining estimated contract term.

Intangible assets and goodwill
The CICL Group's intangible assets relate to syndicate capacity, distribution channels and US insurance licenses (as admitted and eligible surplus lines insurers). Intangible assets are valued at their fair value at the time of acquisition.

Purchased syndicate capacity and admitted licenses are considered to have an indefinite life and as such are subject to annual impairment testing. Surplus lines authorisations and distribution channels are considered to have a finite life and are amortised over their estimated useful lives of five years.

The CICL Group evaluates the recoverability of its intangible assets whenever changes in circumstances indicate that an intangible asset may not be recoverable. If it is determined that an impairment exists, the excess of the unamortised balance over the fair value of the intangible asset is recognised as a change in net income in the Consolidated Statements of Operations.

Goodwill represents the excess of purchase price over the net fair value of identifiable assets acquired and liabilities assumed in a business combination. Goodwill is deemed to have an indefinite life and is not amortised, but rather tested at least annually for impairment. Impairment losses are recognised in net income in the Consolidated Statements of Operations.

The impairment tests involve an assessment of the fair values of reporting units and intangible assets. The measurement of fair values is based on an evaluation of a number of factors, including ranges of future discounted earnings and recent market transactions. Certain key assumptions considered include forecasted trends in operating returns and cost of capital.

Other assets
Other assets include prepaid items, property and equipment, income tax recoverable and unsettled trade receivables.

Comprehensive income/(loss)
Comprehensive income/(loss) represents all changes in equity that result from recognised transactions and other economic events during the period. The CICL Group's other comprehensive income/(loss) primarily comprises foreign currency translation adjustments.

Foreign currency translation and transactions
Foreign currency translation
The reporting currency of the CICL Group is US dollars. The financial statements of each of the CICL Group's entities are initially measured using the entity's functional currency, which is determined based on its operating environment and underlying cash flows. For entities with a functional currency other than US dollars, foreign currency assets and liabilities are translated into US dollars using period-end rates of exchange, while Statements of Operations are translated at average rates of exchange for the period. The resulting translation differences are recorded as a separate component of accumulated other comprehensive income/(loss) within stockholder's equity.

Foreign currency transactions
Monetary assets and liabilities denominated in currencies other than the functional currency are revalued at period-end rates of exchange, with the resulting gains and losses included in income. Revenues and expenses denominated in foreign currencies are translated at average rates of exchange for the period.

Income taxes
Income taxes have been provided for those operations that are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the CICL Group's assets and liabilities. Such temporary differences are primarily due to the recognition of untaxed profits and intangible assets arising from the acquisition of Wellington Underwriting plc ('Wellington') in December 2006. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all or some portion of the benefits related to deferred tax assets will not be realised.

Stock compensation
The fair value of awards under stock-based compensation arrangements is calculated on the grant date based on the share price and the exchange rate in effect on that date and is recognised on a straight-line basis over the vesting period. The calculation is updated on a regular basis to reflect revised expectations and actual experience.

Pensions
The CICL Group operates defined contribution pension schemes for eligible employees, the costs of which are expensed as incurred.

The CICL Group also sponsors a defined benefit pension scheme which was closed to new members in 1993. Any surplus or deficit on the scheme is carried as an asset or liability on the balance sheet.

New accounting pronouncements
In March 2008 the Financial Accounting Standards Board ('FASB') issued a new accounting standard on disclosures about derivative instruments and hedging activities. The accounting standard establishes the disclosure requirements for derivative instruments and for hedging activities. The standard requires expanded disclosure of how and why an entity uses derivative instruments, how derivatives and related hedged items are accounted for and how derivatives and related hedged items affect an entity's financial position, financial performance and cash flows. The CICL Group adopted the new accounting standard in 2009.

Effective 1 January 2009, the CICL Group adopted a FASB amendment to the existing accounting standard on fair value measurements and disclosures relating to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The amendment also includes guidance on identifying circumstances that indicate a transaction is not orderly and amends certain disclosure guidance. The amendment is effective for interim and annual periods ending after 15 June 2009. The adoption of the amendment did not have a material impact on the CICL Group's financial position or results of operations.

Effective 1 January 2009, the CICL Group adopted FASB amendments to accounting standards on fair value measurements and disclosures relating to fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consisted with the measurement principles of accounting standards for investment companies as of the reporting entity's measurement date. The amendments also require disclosures by major category of investment about the attributes of investments within the scope of the amendments, such as the nature of any restrictions on the investor's ability to redeem its investment at the measurement date, any unfunded commitments, and the investment strategies of investees. The amendments are effective for interim and annual periods ending after 15 December 2009. The adoption of the amendments did not have a material impact on the CICL Group's financial position or results of operations.

In June 2009 the FASB issued the FASB Accounting Standards Codification (Codification). The Codification became the single source for all authoritative GAAP recognized by the FASB applied for financial statements issued for periods ending after 15 September 2009. The Codification did not change GAAP and did not have an impact on the CICL Group's financial position or results of operations.

In 2009, the CICL Group adopted amendments to accounting guidance on the following topics, none of which had a material impact on the CICL Group's financial position or results of operations: business combinations; accounting for financial guarantee insurance contracts; employers' accounting for defined benefit pension and other postretirement plans; non controlling interests in consolidated financial statements; recognition and presentation of other-than-temporary impairments; and subsequent events.

3 Segmental information

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

- Catlin Syndicate, which comprises direct insurance and reinsurance business underwritten by the CICL Group's syndicates at Lloyd's of London ('Lloyd's');
- Catlin Bermuda, which primarily underwrites reinsurance business, including intra-Group reinsurance;

- Catlin UK, which primarily underwrites direct insurance; and
- Catlin US, which primarily underwrites direct insurance and reinsurance business in the United States.

At 31 December 2009, there were five significant intra-Group reinsurance contracts in place: a 45 per cent Corporate Quota Share, which cedes Catlin Syndicate risk to Catlin Bermuda; a 75 per cent Quota Share contract which cedes Catlin UK risk to Catlin Bermuda; a Whole Account Stop Loss contract which cedes 4.9 per cent of premiums and up to 20 per cent of losses above a net loss ratio of 86 per cent from Catlin Syndicate to Catlin Bermuda; and also two 75 per cent Quota Share contracts which cede Catlin US risk to Catlin Bermuda. The effects of each of these reinsurance contracts are excluded from segmental revenue and results, as this is the basis upon which the performance of each segment is assessed.

Net underwriting contribution by operating segment for the year ended 31 December 2009 is as follows:

(US dollars in millions)	Catlin Syndicate	Catlin Bermuda	Catlin UK	Catlin US	Total
Gross premiums written	$2,496	$421	$469	$329	$3,715
Reinsurance premiums ceded	(353)	(50)	(72)	(72)	(547)
Net premiums written	2,143	371	397	257	3,168
Net premiums earned	2,001	348	384	185	2,918
Losses and loss expenses	(1,079)	(150)	(331)	(121)	(1,681)
Policy acquisition costs	(392)	(76)	(84)	(34)	(586)
Net underwriting contribution	$530	$122	$(31)	$30	$651

Net underwriting contribution by operating segment for the year ended 31 December 2008 is as follows:

(US dollars in millions)	Catlin Syndicate	Catlin Bermuda	Catlin UK	Catlin US	Total
Gross premiums written	$2,416	$392	$487	$142	$3,437
Reinsurance premiums ceded	(683)	(61)	(62)	(20)	(826)
Net premiums written	1,733	331	425	122	2,611
Net premiums earned	1,793	304	407	92	2,596
Losses and loss expenses	(1,098)	(159)	(311)	(64)	(1,632)
Policy acquisition costs	(339)	(63)	(88)	(20)	(510)
Net underwriting contribution	$356	$82	$8	$8	$454

Of total revenue as reported in the CICL Group's Consolidated Statements of Operations, only net premiums earned are measured and managed on a segmental basis.

Assets are reviewed in total by management for the purposes of decision making.

4 Investments

Fixed maturities

The fair values of fixed maturities at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	**2009** **Fair value**	2008 Fair value
US government and agencies	$745	$673
Non-US governments	836	394
Corporate securities	1,243	763
Asset-backed securities	260	257
Mortgage-backed securities	783	621
Total fixed maturities	$3,867	$2,708

$409 million (2008: $273 million) of the total mortgage-backed securities at 31 December 2009 is represented by investments in Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation bonds.

The composition of the fair values of fixed maturities by ratings assigned by rating agencies is as follows:

(US dollars in millions)	**2009** **Fair value**	**%**	2008 Fair value	%
US government and agencies	$745	19	$673	25
Non-US governments	836	22	394	15
AAA	1,254	32	1,103	41
AA	262	7	134	5
A	600	16	364	13
BBB and other	170	4	40	1
Total fixed maturities	$3,867	100	$2,708	100

The gross unrealised gains and losses related to fixed maturities at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	**2009** **Gross unrealised gains**	**Gross unrealised losses**	2008 Gross unrealised gains	Gross unrealised losses
US government and agencies	$16	$3	$46	$2
Non-US governments	21	2	22	-
Corporate securities	34	4	15	28
Asset-backed securities	2	13	-	34
Mortgage-backed securities	14	69	9	134
Total fixed maturities	$87	$91	$92	$198

Fixed maturities at 31 December 2009, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

(US dollars in millions)	Fair value
Due in one year or less	$222
Due after one through five years	2,315
Due after five years through ten years	254
Due after ten years	33
	2,824
Asset-backed securities	260
Mortgage-backed securities	783
Total	$3,867

The CICL Group did not have an aggregate investment with a single counterparty, other than the US government, in excess of 10 per cent of total investments at 31 December 2009 and 2008.

Investments in funds

Investments in funds by category at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	2009	2008
Equity funds	$-	$79
Internal fund of funds	358	433
Funds of funds	121	158
Bond fund	47	131
Equity market option contracts	4	-
Total investments in funds	$530	$801

At 31 December 2008 CICL Group's investments in equity funds comprised two equity funds invested in a variety of equity securities with an objective to provide long-term return. Both funds were redeemed in 2009.

Internal fund of funds is an internally managed fund which comprises 16 individual hedge funds invested across a diversified set of managers, strategies and underlying asset classes including credit/distressed funds, multi-strategy funds and an activist fund with an objective to provide diversification of investment holdings.

Hedge funds within the internal fund of funds are subject to redemption terms which vary from 30 days' notice and monthly redemptions to 65 days' notice and 25 per cent of funds being redeemable each quarter. Of the 16 funds held at 31 December 2009, three funds valued at $51 million had a redemption date of 31 December 2009 and further redemption notices have been submitted for four funds with redemption valuation dates ranging from 1 January to 30 April 2010.

Additionally, within the internal fund of funds, one hedge fund, valued at $10 million is in the process of closing. The redemption proceeds will be received in instalments over a two year period. Another hedge fund, valued at $19 million is in the process of restructuring. Catlin submitted a redemption request in this fund and expects to receive the redemption proceeds over a two year period.

Funds of funds comprise two funds invested across a diversified set of managers, strategies and underlying asset classes including credit/distressed, credit/multi-strategy, equity hedged, multi-strategy, relative value and trading funds with an objective to provide diversification of investment holdings. At 31 December 2009 Catlin has submitted redemption notices for both funds of funds. The redemption proceeds of $121 million are expected to be received by February 2010.

The bond fund is a portfolio of government and corporate bonds with an objective to outperform the OECD bond benchmark over a two-year period. The bond fund is redeemable on a daily basis.

There are no unfunded commitments related to investment in funds as at 31 December 2009.

Net investment return
The components of net investment return for the years ended 31 December 2009 and 2008 are as follows:

(US dollars in millions)	**2009**	2008
Interest income	$187	$233
Net gains/(losses) on fixed maturities and short-term investments	91	(111)
Net gains/(losses) on investments in funds	141	(212)
Investment in associate	-	5
Total investment return	419	(85)
Investment expenses	(5)	(6)
Net investment return	$414	$(91)

The CICL Group has elected to apply the fair value option to its fixed maturities and short-term investments. In 2009, net gains of $91 million (2008: net losses of $111 million) were included in the Consolidated Statements of Operations in relation to changes in the fair values of these assets.

Gains in 2009 on fixed maturities and short-term investments still held at 31 December 2009 were $91 million. Gains in 2009 on investments in funds still held at 31 December 2009 were $87 million.

Restricted assets
The CICL 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 CICL Group also has investments in segregated portfolios primarily to provide collateral for Letters of Credit (‘LOC’), as described in Note 10. Finally, the CICL Group also utilises trust funds set up for the benefit of certain ceding companies as alternative to LOC’s.

The total value of these restricted assets by category at 31 December 2009 and 2008 is as follows:

(US dollars in millions)	**2009**	2008
Fixed maturities	$2,134	$1,566
Short-term investments	41	5
Cash and cash equivalents	567	350
Total restricted assets	$2,742	$1,921

Securities lending
The CICL 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 CICL Group had $15 million (2008: $33 million) of securities on loan at 31 December 2009.

5. Fair value measurement

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

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

Assets utilising Level 1 inputs comprise investments in equity funds and exchange traded derivatives.

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

Assets and liabilities utilising Level 2 inputs include: US government and agency securities; non-US government obligations, corporate and municipal bonds, residential mortgage-backed securities ('RMBS'), commercial mortgage-backed securities ('CMBS') and asset-backed securities ('ABS') to the extent that they are not identified as Level 3 items; over-the-counter ('OTC') derivatives (e.g. foreign exchange contracts); fixed-term cash deposits classified as short-term investments; and investments in funds with few restrictions on redemptions or new investors.

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

Assets and liabilities utilising Level 3 inputs include: insurance and reinsurance derivative contracts ('cat swaps'); investments in funds with significant redemption restrictions; collateralised debt obligations ('CDO'); sub-prime securities, Alt-A securities and securities rated CCC and below, where the unobservable inputs reflect individual assumptions and judgments regarding ultimate delinquency and foreclosure rates and estimates regarding the likelihood and timing of events of defaults.

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

Assets and liabilities measured at fair value on a recurring basis
The table below shows the values at 31 December 2009 of assets and liabilities measured at fair value on a recurring basis, analysed by the level of inputs used.

(US dollars in millions)	Balance as at 31 December 2009	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
US government and agencies	$745	$-	$745	$-
Non-US governments	836	-	836	-
Corporate securities	1,243	-	1,243	-
RMBS	580	-	514	66
CMBS	203	-	203	-
ABS	256	-	252	4
CDO	4	-	-	4
Total fixed maturities	3,867	-	3,793	74
Short-term investments	796	-	796	-
Investments in funds (excluding options)	526	-	169	357
Equity market option contracts	4	4	-	-
Catastrophe swaps	1	-	-	1
Total assets at fair value	$5,194	$4	$4,758	$432

There have been no significant transfers in or out between Level 1 and Level 2 of the fair value hierarchy.

The table below shows the values at 31 December 2008 of assets and liabilities measured at fair value on a recurring basis, analysed by the level of inputs used.

(US dollars in millions)	Balance as at 31 December 2008	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
Fixed maturities	$2,708	$-	$2,671	$37
Short-term investments	69	-	69	-
Investments in funds	801	158	309	334
Catastrophe swaps	7	-	-	7
Total assets at fair value	$3,585	$158	$3,049	$378
Liabilities				
Foreign exchange derivative contracts	$17	$-	$17	$-

The changes in the year ended 31 December 2009 in balances measured at fair value on a recurring basis using Level 3 inputs were as follows:

(US dollars in millions)	Total	RMBS	ABS	CDO	Investments in funds	Catastrophe swaps
Balance, 1 January 2009	$378	$31	$3	$3	$334	$7
Total net gains/(losses) included in income	100	9	-	(3)	100	(6)
Net (disposals)/purchases	(87)	(8)	(2)	-	(77)	-
Level 3 transfers in	41	34	3	4	-	-
Balance, 31 December 2009	$432	$66	$4	$4	$357	$1
Amount of gains/(losses) relating to balances still held at year end	$86	$8	$1	$(4)	$87	$(6)

Level 3 transfers in from Level 2 for RMBS, ABS and CDO occurred because of lack of observable market data due to a decrease in market activity for these securities.

The changes in the year ended 31 December 2008 in balances measured at fair value on a recurring basis using Level 3 inputs were as follows:

(US dollars in millions)	Total	Fixed maturities	Investments in funds	Catastrophe swaps (liabilities)/assets
Balance, 1 January 2008	$315	$82	$242	$(9)
Total net (losses)/gains included in income	(99)	(24)	(91)	16
Net purchases/(disposals)	13	(21)	34	-
Level 3 transfers in	152	-	152	-
Foreign exchange	(3)	-	(3)	-
Balance, 31 December 2008	$378	$37	$334	$7
Amount of net (losses)/gains relating to balances still held at year end	$(100)	$(25)	$(91)	$16

Fair value of financial instruments
The following methods and assumptions are used by the CICL Group in estimating the fair value of its financial instruments:

Investments: Fair values of fixed maturities and short-term investments are based on the quoted market price of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriting bid indications. The fair value of investments in funds is based on either the net asset value provided by the funds' administrators, or where available, the quoted price of the funds.

Derivatives: The fair values of the catastrophe swap agreements are determined using internal models based on the valuation of the underlying notes issued by the counterparty. The determination of the fair values takes into account changes in the market for catastrophic reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date. The fair values of option contracts and equity index futures contracts are based on prices provided by independent pricing services.

Subordinated debt: Subordinated debt is not carried at fair value but at historical cost. At 31 December 2009, the fair value of the subordinated debt was $69 million which compared to a carrying value of $97 million. The fair value of the subordinated debt is estimated by comparing Catlin Bermuda's preferred stock and other peer group instruments to determine market required yields. Market required yields were used to estimate market value.

Other assets and liabilities: The fair values of cash and cash equivalents, securities lending collateral, premiums and other receivables, securities lending payable, and accounts payable approximate their carrying value due to the immediate or short term maturity of these financial instruments.

6 Investment in associate

On 2 September 2008, the CICL Group, through Catlin Inc., one its US subsidiaries, sold its 25 per cent membership interest in Southern Risk Operations, L.L.C. ('SRO') which was accounted for using the equity method. The CICL Group's share of the gain on sale was $5 million in 2008 and its share of the proceeds was $7 million. Under the terms of the sale, the CICL Group may be entitled to further contingent consideration dependent on further thresholds being met in the next four years. In addition, the CICL Group received cash distributions from SRO during the year ended 31 December 2008 of $1 million. The share of SRO's profit included within the Consolidated Statement of Operations during 2008 was $1 million.

7 Reserves for losses and loss expenses

The CICL Group establishes reserves for losses and loss expenses, which are estimates of future payments of reported and unreported losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves is complex and imprecise, requiring the use of informed estimates and judgments. The CICL Group's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in earnings in the period in which the estimates are changed. Management believes that they have made a reasonable estimate of the level of reserves at 31 December 2009 and 2008.

The reconciliation of unpaid losses and loss expenses for the years ended 31 December 2009 and 2008 is as follows:

(US dollars in millions)	**2009**	2008
Gross unpaid losses and loss expenses, beginning of year	$4,606	$4,237
Reinsurance recoverable on unpaid loss and loss expenses	(1,070)	(860)
Net unpaid losses and loss expenses, beginning of year	3,536	3,377
Net incurred losses and loss expenses for claims related to:		
Current year	1,775	1,750
Prior years	(94)	(118)
Total net incurred losses and loss expenses	1,681	1,632
Net paid losses and loss expenses for claims related to:		
Current year	(232)	60
Prior years	(1,305)	(1,211)
Total net paid losses and loss expenses	(1,537)	(1,151)
Foreign exchange and other	109	(326)
Loss portfolio transfer	431	4
Net unpaid losses and loss expenses, end of year	4,220	3,536
Reinsurance recoverable on unpaid losses and loss expenses	1,172	1,070
Gross unpaid losses and loss expenses, end of year	$5,392	$4,606

As a result of the changes in estimates of insured events in prior years, the 2009 reserves for losses and loss expenses net of reinsurance recoveries decreased by $94 million (2008: $118 million). The decrease in reserves relating to prior years was due to reductions in expected ultimate loss costs and reductions in uncertainty surrounding the quantification of the net cost claim events.

The CICL Group's ultimate gross loss arising from 2008 Hurricane Ike is estimated to be $328 million (2008: $311 million) and its ultimate net loss is estimated to be $237 million (2008: $231 million) after reinsurance recoveries of $66 million (2008: $57 million) and net reinstatement premiums of $25 million (2008: $23 million). These amounts represent management's best estimate of the likely final losses to the CICL Group from the 2008 hurricanes. In making this estimate, management has used the best information available, including estimates performed by the CICL Group's underwriters, actuarial and claims staff, retained external actuaries, outside agencies and market studies. Allowance is made in the overall management best estimate of net unpaid losses for an appropriate level of sensitivity, for both individual large losses and the overall portfolio of business. In respect of the 2008 hurricanes, management have particularly considered sensitivities relating to gross losses on direct and reinsurance accounts, underlying loss experience of cedants and reinsurance coverage and security factors.

Loss portfolio transfer
As part of the purchase of Wellington in 2006, the CICL Group acquired approximately two-thirds of the capacity on Lloyd's syndicate 2020. In a simultaneous but separate transaction, CICL Group effectively acquired the remaining capacity from unaligned members by way of a cessation agreement. During the year, Syndicate 2020 closed its 2006 Lloyd's underwriting year of account by way of a Lloyd's reinsurance to close ('RITC'). RITC is a contract between the Lloyd's members on one syndicate underwriting year of account and the members on another syndicate underwriting year of account, whereby the members on the earlier year reinsure all their outstanding liabilities with the members on the later year. To the extent that members maintain their interest from one year to the next, there is no economic effect arising from this transaction. However, where members' interests change from one underwriting year of account to the next, and the CICL Group's share of the syndicate changes as a consequence, there is an economic transfer arising from the RITC.

As a result of the transaction, the Catlin Syndicate assumed the 33 per cent of Syndicate 2020's outstanding losses previously attributable to the syndicate's third-party members, in addition to the 67 per cent share already held by the CICL Group.

The remaining net liability in Syndicate 2020, calculated as $431 million, was assumed by Syndicate 2003 through a payment in the form of cash and investments in the same amount. The transaction has been treated as a loss portfolio transfer, recorded as an increase in net loss reserves with no impact on the Consolidated Statements of Operations.

In 2008, Syndicate 2020 closed the 2005 Lloyd's underwriting year of account by way of a Lloyd's reinsurance to close. In closing the 2005 year of account, all outstanding losses were transferred into the 2006 year of account. The CICL Group had an additional ownership of approximately 0.59 per cent acquired from the external members in respect of the 2006 year of account, which resulted in an increase in loss reserves of $4 million; this has been treated as a loss portfolio transfer.

8 Reinsurance

The CICL Group purchases reinsurance to limit various exposures including catastrophe risks. Although reinsurance agreements contractually obligate the CICL 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 CICL Group. The effect of reinsurance and retrocessional activity on premiums written and earned is as follows:

	2009		2008	
(US dollars in millions)	**Premiums written**	**Premiums earned**	Premiums written	Premiums earned
Direct	$2,586	$2,473	$2,467	$2,372
Assumed	1,129	1,094	970	936
Ceded	(547)	(649)	(826)	(712)
Net premiums	$3,168	$2,918	$2,611	$2,596

The CICL Group's reinsurance recoverable as at 31 December 2009 and 2008 is as follows:

(US dollars in millions)	**2009**	2008
Gross reinsurance recoverable	$1,489	$1,260
Provision for uncollectible balances	(48)	(34)
Net reinsurance recoverable	$1,441	$1,226

The CICL Group evaluates the financial condition of its reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. All current reinsurers have financial strength rating of at least 'A' from Standard and Poor's or 'A-' from A.M. Best at the time of placement, or provide appropriate collateral. However, certain reinsurers from prior years have experienced a reduced ratings which has led to the need for the provision. At 31 December 2009, there were two reinsurers which accounted for 5 per cent or more of the total reinsurance recoverable balance.

	% of reinsurance recoverable	**Best rating**
Munich Re	16%	A+
Hannover Ruck-AG	5%	A

9 Derivative financial instruments

Catastrophe swap agreements

Newton Re

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

The Newton Re cat swap responds to certain covered risk events occurring during a three-year period. The categories of risk events covered by the transaction are US hurricanes and US earthquakes. Newton Re will pay a maximum of $138 million for US hurricane events and $88 million for US earthquake events.

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

The cat swap has not been triggered as at 31 December 2009.

Bay Haven

On 17 November 2006, Catlin Bermuda entered into two cat swaps that provided up to $257 million in coverage in the event of a series of natural catastrophes. Catlin Bermuda's counterparty in the cat swaps was a special purpose vehicle, Bay Haven Limited. The Bay Haven cat swaps were designed to respond to certain covered risk events occurring during a three-year period. The cat swaps expired in 2009 without being triggered.

Valuation of Catastrophe Swap Agreements

The Cat swaps are measured in the balance sheet at fair value with any changes in the fair value included in the Consolidated Statements of Operations. As at 31 December 2009, the fair value of the cat swaps is an asset of $1 million (2008: $7 million). As there is no liquid market in this derivative, the fair value is derived from indicative prices for the notes issued by the cat swap counterparties.

Options and futures contracts
The CICL Group is exposed to certain risks relating to its ongoing business operations. A primary risk managed by using derivative instruments is market risk. A portion of the investment portfolio is invested in hedge funds and fund of funds. Equity market put option contracts and equity market futures contracts are entered into to manage the market risk associated with holding these investments in funds.

Equity market put option contracts provide the option purchaser with the right but not the obligation to sell a financial instrument at a predetermined exercise price during a defined period. Options contracts are marked to market on a daily basis.

Gains and losses for equity market options and futures contracts are included in net investment return in the Consolidated Statements of Operations. Equity market put option contracts' fair value is included in investment in funds of the Consolidated Balance Sheet. No equity market futures contracts were held at 31 December 2009.

Foreign exchange contracts
During the period, the CICL Group held various foreign currency derivatives (forward contracts, caps and collars) to manage currency risk. Gains and losses on foreign exchange contracts are included in net realised gains/(losses) on foreign currency exchange in the Consolidated Statements of Operations. At 31 December 2008 the CICL Group held two forward contracts, both of which were closed in early 2009. No contracts were held at 31 December 2009.

Impact of derivatives
The fair values of derivatives at 31 December 2009 and 2008 are as follows:

	2009		2008	
(US dollars in millions)	**Assets**	**Liabilities**	Assets	Liabilities
Equity market option contracts	$4	$-	$-	$-
Foreign exchange contracts	-	-	-	17
Catastrophe swaps	1	-	7	-
Total derivatives	$5	$-	$7	$17

The notional values of exchange traded and OTC open derivatives at 31 December 2009 and 2008 are as follows:

	Notional Value	
(US dollars in millions)	**2009**	2008
Equity market option contracts	$115	$-
Foreign exchange contracts	-	115

The gains and losses on derivatives at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	**2009**	2008
Equity market options contracts	$(6)	$-
Equity market futures contracts	(7)	-
	(13)	-
Foreign exchange contracts	4	(26)
Catastrophe swaps	(31)	(13)
Net losses on derivatives	$(40)	$(39)

The derivatives contracts held by CICL Group at 31 December 2009 contain no credit-risk related contingent features.

10 Subordinated debt and financing arrangements

The CICL Group's outstanding subordinated debt as at 31 December 2009 and 2008 consisted of the following:

(US dollars millions)	**2009**	2008
Variable rate, face amount €7, due 15 March 2035	$11	$10
Variable rate, face amount $27, due 15 March 2036	28	28
Variable rate, face amount $31, due 15 September 2036	32	33
Variable rate, face amount $10, due 15 September 2036	10	11
Variable rate, face amount €11, due 15 September 2036	16	16
Total subordinated debt	$97	$98

Subordinated debt

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

On 20 July 2006, Catlin Underwriting issued $31 million, $10 million and €11 million of variable rate unsecured subordinated notes. The notes are subordinated to the claims of all Senior Creditors, as defined in the agreement. The notes pay interest based on the rate on three-month deposits in US dollars plus a margin of 310 basis points for the $31 million notes and 300 basis points for the other two notes. Interest is payable quarterly in arrears. The notes are each redeemable at the discretion of the issuer on 15 September 2011.

Bank facilities

The Group participates in a Letter of Credit/Revolving Loan Facility (the 'Club Facility'), which includes seven banks. The Club Facility was most recently amended on 10 September 2008, when the credit available under the Club Facility was set at $600 million and £320 million. The amended Club Facility was composed of three tranches, the first of which, a 364-day, $100 million revolving facility ('Facility A') expired undrawn on 10 September 2009. The following amounts were outstanding under the Club Facility as at 31 December 2009:

- Clean, irrevocable standby LOCs of $518 million (£320 million) are available to support the Catlin Syndicate's underwriting at Lloyd's ('Facility B'). As at 31 December 2009 the Catlin Corporate Members and Catlin Syndicate have utilised Facility B and deposited with Lloyd's 13 LOCs which total the amount of $518 million (£320 million). In the event that the Catlin Syndicate fails to meet its obligations under policies of insurance written on its behalf, Lloyd's could draw down this letter of credit. These LOCs have an initial expiry date of 27 November 2013.

- A two-year $500 million standby LOC facility is available for utilisation by Catlin Bermuda and Catlin UK ('Facility C'). It is further split into two equal tranches of $250 million with the first being fully secured by OECD Government Bonds, US Agencies, Corporate and Asset Backed securities and or cash discounted at varying rates. The second tranche is unsecured. As at 31 December 2009 $263 million in LOCs were outstanding, of which $259 million were issued for the benefit of insureds and re-insureds of Catlin Bermuda, and $4 million (£2 million) issued for the benefit of an insured of Catlin UK. $137 million of the LOCs were issued on an unsecured basis. Facility C has an expiry date of 31 December 2010.

The terms of the Club Facility require that certain financial covenants be met on a quarterly basis as evidenced by the filing of Compliance Certificates. These include maximum levels of possible exposures to realistic disaster scenarios for the CICL Group, as well as requirements to maintain minimum tangible net worth. The CICL Group was in compliance with all covenants during 2009.

A second LOC Facility administered by Citibank on behalf of Lloyd's acting for the Lloyd's Syndicates had LOCs totalling $7 million outstanding at 31 December 2009.

Catlin US issued LOCs to state regulators and other parties. These LOCs amount to $6 million.

11 Intangible assets and goodwill

The CICL Group's intangible assets relate to the purchase of syndicate capacity, distribution channels and US insurance licenses (as admitted and eligible surplus lines insurers). Goodwill represents the excess of purchase price over the net fair value of identifiable assets acquired and liabilities assumed in a business combination.

Net intangible assets and goodwill as at 31 December 2009 and 2008 consist of the following:

(US dollars in millions)	Goodwill	Indefinite life intangibles	Finite life intangibles	Total
Net value at 1 January 2008	$93	$782	$9	$884
Movements during 2008:				
Foreign exchange revaluation	(23)	(207)	(1)	(231)
Amortisation charge	-	-	(2)	(2)
Total movements during 2008	(23)	(207)	(3)	(233)
Net value at 31 December 2008	70	575	6	651
Movements during 2009:				
Foreign exchange revaluation	7	62	-	69
Amortisation charge	-	-	(2)	(2)
Total movements during 2009	7	62	(2)	67
Net value at 31 December 2009	$77	$637	$4	$718

Goodwill, syndicate capacity and admitted licenses are considered to have an indefinite life and as such are subject to annual impairment testing. Neither goodwill nor intangibles were considered impaired in 2009 or 2008.

The syndicate capacity comprises underwriting capacity that the CICL Group purchased through business combination, syndicate cessation and direct purchases.

Syndicate capacity is tested annually for impairment by comparing management's estimate of its fair value to the amount at which it is carried in the CICL Group's consolidated balance sheet.

The fair value of the CICL Group's syndicate capacity is assessed by reference to market activity and internally developed cash flow models. In 2009 and 2008, management determined that the fair value of syndicate capacity exceeded its carrying value.

Distribution channels and surplus lines authorisations are considered to have a finite life and are amortised over their estimated useful lives of five years. As at 31 December 2009 the gross carrying amount of finite life intangibles was $10 million (2008: $10 million) and accumulated amortisation was $6 million (2008: $4 million). Amortisation of intangible assets at current exchange rates will amount to approximately $2 million per annum for the next two years and nil thereafter.

12 Taxation

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

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

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

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

The CICL 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 CICL Group to change the way it operates or become subject to taxation.

The income tax expense/(benefit) for the years ended 31 December 2009 and 2008 is as follows:

(US dollars in millions)	**2009**	2008
Current tax benefit	$(31)	$(41)
Deferred tax expense	81	31
Expense/(benefit) for income taxes	$50	$(10)

The effective tax rate for the CICL Group is 8.1 per cent (2008: not meaningful). A reconciliation of the difference between the expense/(benefit) for income taxes and the expected tax expense/(benefit) at the weighted average tax rate for the years ended 31 December 2009 and 2008 is provided below. The weighted average expected tax expense/(benefit) has been calculated using pre-tax accounting income/(loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate.

(US dollars in millions)	**2009**	2008
Expected tax expense/(benefit) at weighted average rate	$33	$(26)
Permanent differences:		
Disallowed expenses	14	2
Valuation allowances	3	11
Prior year adjustments including changes in uncertain tax positions	-	3
Expense/(benefit) for income taxes	$50	$(10)

The components of the CICL Group's net deferred tax liability as at 31 December 2009 and 2008 are as follows:

(US dollars in millions)	**2009**	2008
Deferred tax assets:		
Net operating loss carry forwards	$170	$65
Stock options	-	4
Accelerated capital allowances	5	3
Syndicate capacity amortisation and other	3	1
Valuation allowance	(23)	(20)
Total deferred tax assets	$155	$53
Deferred tax liabilities:		
Untaxed profits	(294)	(142)
Intangible assets arising on business combination	(95)	(87)
Total deferred tax liabilities	$(389)	$(229)
Net deferred tax liability	$(234)	$(176)

As at 31 December 2009, the CICL Group has net operating loss carry forwards of $526 million (2008: $162 million) which are available to offset future taxable income. The net operating loss carry forwards primarily arise in the UK subsidiaries and relate to accelerated tax deductions for member-level reinsurance premiums. These are taxed on a declarations basis and are therefore only timing items. There are no time restrictions on the use of these losses and they are expected to be fully utilised.

As at 31 December 2009 there are potential deferred tax assets of $23 million (2008: $20 million) in the US companies relating to 2009 calendar year losses, but a 100 per cent valuation allowance has been recognised in respect of the losses in both 2009 and 2008.

Uncertain tax benefits
As at 31 December 2009 the amount of uncertain tax benefits was $4 million (2008:$8 million). All unrecognised tax benefits would affect the effective tax rate if recognised.

A reconciliation of the beginning and ending amount of unrecognised tax benefits arising from uncertain tax positions is as follows:

(US dollars in millions)	**2009**	2008
Unrecognised tax benefits balance at 1 January	$8	$9
Gross decreases for tax positions of prior years	(4)	(1)
Unrecognised tax benefits balance at 31 December	$4	$8

The CICL Group does not believe it would be subject to any penalties in any open tax years and has not accrued any such amounts. The CICL Group accrues interest and penalties (if applicable) as income tax expenses in the consolidated financial statements. The CICL Group did not pay or accrue any interest or penalties in 2009 or 2008 relating to uncertain tax positions.

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

Major tax jurisdiction	**Years**
United Kingdom	2008-2009
United States	2006-2009

13 Stockholder's equity

The following sets out the number and par value of shares authorised, issued and outstanding as at 31 December 2009 and 2008:

	2009	2008
Common stock, par value $1		
Authorised	1,034,000	1,034,000
Issued and outstanding	1,000,100	1,000,100
Preferred stock, par value $0.01		
Authorised, issued and outstanding	600,000	600,000

Capital Contribution
In April 2009, the Company received a cash contribution of $223 million from its parent as additional paid-in capital.

Preferred stock
On 18 January 2007 Catlin Bermuda issued 600,000 non-cumulative perpetual preferred shares, par value of $0.01 per unit, with liquidation preference of $1,000 per unit, plus declared and unpaid dividends. Dividends at a rate of 7.249 per cent on the liquidation preference are payable semi-annually on 19 January and 19 July in arrears as and when declared by the Board of Directors, commencing on 19 July 2007 up to but not including 19 January 2017. Thereafter, if the stock has not yet been redeemed, dividends will be payable quarterly at a rate equal to 2.975 per cent plus the three-month LIBOR rate of the liquidation preference. Catlin Bermuda received proceeds of approximately $590 million net of issuance costs. The preferred shares do not have a maturity date and are not convertible into or exchangeable into any of Catlin Bermuda's or the Group's other securities.

Dividends on preferred stock
On both 19 January and 19 July 2009, the Board of Catlin Bermuda paid a semi-annual dividend of $22 million to the stockholders of the non-cumulative perpetual preferred stock.

14 Employee stock compensation schemes

Employees of the CICL Group participate in two stock compensations schemes in place at its parent, Catlin Group Limited, under which awards are outstanding: the Performance Share Plan ('PSP'), adopted in 2004, and the Long Term Incentive Plan ('LTIP'), adopted in 2002. In March 2009, the parent completed a Rights Issue of 2 new common shares for every 5 existing common shares. As a result of the Rights Issue, the number of PSP and LTIP awards was adjusted in 2009.

In addition, the CICL Group also has three Employee Share Plans in place. The expense related to the Employee Share Plans is considered to be insignificant. These financial statements include the total cost of stock compensation for all plans, calculated using the fair value method of accounting for stock-based employee compensation.

The total amount expensed to income in respect of all plans in the year ended 31 December 2009 was $21 million (2008: credit of $2 million) included in administrative and other expenses. Remaining stock compensation to be expensed in future periods relating to these plans is $25 million. As described below, the valuation of the PSP is periodically revised to take into account changes in performance against vesting conditions.

Performance Share Plan
On 12 February 2009 a total of 4,723,649 options with $nil exercise price and 2,129,954 non-vested shares (total of 6,853,603 securities) were awarded to CICL Group employees under the PSP. In August and September 2009 a further 24,026 options with $nil exercise price and 98,136 non-vested shares (total of 122,162 securities) were awarded, resulting in a total of 6,975,765 securities granted to CICL Group employees under the PSP in 2009. Up to half of the securities will vest in 2012 and up to half will vest in 2013, subject to certain performance conditions.

These securities have been treated as non-vested shares and as such have been measured at their fair value on the grant date as if they were fully vested and issued and assuming an annual attrition rate amongst participating employees of 7 per cent for grants made in 2009, 8 per cent for grants made in 2008, 8 per cent for grants made in 2007 and 4 per cent for grants made in 2006. This initial valuation is revised at each balance sheet date to take account of actual achievement of the performance condition that governs the level of vesting and any changes that may be required to the attrition assumption. The difference is charged or credited to the income statement, with a corresponding adjustment to equity. As a result of the Rights Issue, the number of awards was adjusted in 2009. The total number of shares in respect of which PSP securities were outstanding at 31 December 2009 was 15,623,155 (2008: 10,666,241) and the total amount of expense relating to PSP for the year ended 31 December 2009 was $21 million (2008: credit of $2 million).

The weighted average grant date fair value of the options awarded in 2009 is $5.18 and the total fair value of shares vested during the year is $9 million (2008: $9 million).

The table below shows the PSP securities as at 31 December 2009:

	Outstanding	Non-vested	Vested
Beginning of year	10,666,241	10,430,771	235,470
Rights Issue effect	1,545,421	1,511,304	34,117
Granted during year	6,975,765	6,975,765	-
Vested during the year	(612,922)	(2,258,218)	1,645,296
Forfeited during year	(1,530,510)	(1,530,510)	-
Exercised during the year	(1,420,840)	-	(1,420,840)
End of year	15,623,155	15,129,112	494,043
Exercisable, end of year	494,043	-	494,043

Long Term Incentive Plan
Options over a total of 10,370,952 ordinary common shares were granted to eligible employees in 2004 and prior years. The LTIP options were fully exercisable and expensed by 31 December 2007. There was no compensation expense in relation to the LTIP for the years ended 31 December 2009 and 2008. All options will expire by 4 July 2012. As at 31 December 2009 there were 2,159,758 (2008: 1,886,625) options outstanding with an exercise price of $4.37 (2008: $5.00) and 204,334 (2008: 178,493) options outstanding with an exercise price of £3.06 (2008: £3.50). As a result of the Rights Issue, the number of options and the exercise price were adjusted in 2009.

15 Other comprehensive loss

The following table details the individual components of other comprehensive loss for 2009 and 2008:

2009 (US dollars in millions)	**Amount before tax**	**Tax benefit/ (expense)**	**Amount after tax**
Defined benefit pension plan	$-	$-	$-
Cumulative translation adjustments	112	-	112
Change in accumulated other comprehensive loss	$112	$-	$112

2008 (US dollars in millions)	**Amount before tax**	**Tax benefit/ (expense)**	**Amount after tax**
Cumulative effect of adoption of the fair value option	$(20)	$6	$(14)
Defined benefit pension plan	1	-	1
Cumulative translation adjustments	(307)	(19)	(326)
Change in accumulated other comprehensive loss	$(326)	$(13)	$(339)

The following table details the components of accumulated other comprehensive loss as at 31 December:

(US dollars in millions)	**2009**	2008
Cumulative translation adjustments	$(189)	$(301)
Funded status of defined benefit pension plan adjustment	-	-
Accumulated other comprehensive loss	$(189)	$(301)

16 Pension commitments

The CICL Group operates various pension schemes for employees in the different countries of operation.

In the UK, the CICL Group operates defined contribution schemes for certain directors and employees, which are administered by third-party insurance companies. The pension cost for the UK scheme was $9 million for the year ended 31 December 2009 (2008: $9 million).

In Bermuda, the CICL Group operates a defined contribution scheme, under which the CICL Group contributes a specified percentage of each employee's earnings. The pension cost for the Bermuda scheme was $1 million for the year ended 31 December 2009 (2008: $1 million).

In the US, Catlin Inc. has adopted a 401(k) Profit Sharing Plan ('the Plan') qualified under the Internal Revenue Code and a Non-Qualified Deferred Compensation Plan under which Catlin Inc. contributes a specified percentage of each employee's earnings. The pension cost for the US scheme was $5 million for the year ended 31 December 2009 (2008: $6 million).

In connection with the acquisition of Wellington in December 2006, the CICL Group assumed liabilities associated with a defined benefit pension scheme which Wellington sponsored. The scheme has been closed to new members since 1993. The current membership consists only of pensioners and deferred members. Projected benefit obligations at 31 December 2009 were $27 million (2008: $20 million) and fair value of plan assets was $28 million (2008: 21 million). The pension costs for the defined benefit scheme were insignificant for the years ended 31 December 2009 and 2008.

Pension costs for pension schemes in other countries of operation are considered insignificant.

17 Statutory financial data

The Company is registered under The Insurance Act 1978 (Bermuda), Amendments Thereto and Related Regulations (the "1978 Act") as a Class 4 insurer. Under the 1978 Act, the Company is required to maintain minimum share capital of $1 million and to meet minimum liquidity ratios, a minimum solvency margin (“MSM”) equal to the greater of $100 million, 50% of net premiums written or 15% of the loss and loss expense provisions as at 31 December 2009. The Company has satisfied these requirements for 2009 and 2008.

Effective 31 December 2008, the Bermuda Monetary Authority (“BMA”) has required all Class 4 insurers to determine an enhanced capital requirement (“ECR”) and a Target Capital Level (“TCL”) using a risk-based capital model, the Bermuda Solvency Capital Requirement (“BSCR”). While the required statutory capital and surplus has increased under BSCR requirements, the Company has capital and surplus in excess of it’s TCL (which is defined as 120% of the ECR).

The 1978 Act also limits the maximum amount of annual dividends and distributions that may be paid by the Company. The Company shall not pay dividends in any year which would exceed 25% of its prior year statutory capital and surplus or reduce its prior year statutory capital by 15% or more, without the prior notification to, and in certain cases the approval of, the BMA. In addition, The Bermuda Companies Act 1981 (the "Companies Act") limits the Company's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that the company would be unable to pay its liabilities as they become due or if the realizable value of its assets would be less than the aggregate of its liabilities, issued share capital and share premium accounts.

The CICL Group’s subsidiaries’ statutory capital and surplus was $2,599 million at 31 December 2009 (2008: $1,988 million). The statutory capital and surplus of each of its principal operating subsidiaries is in excess of regulatory requirements.

The CICL Group is also subject to restrictions on some of its assets to support its insurance and reinsurance operations, as described in Note 4.

18 Commitments and contingencies

Legal proceedings

The CICL Group is party to a number of legal proceedings arising in the ordinary course of the CICL 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 CICL 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 CICL 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 CICL Group’s total reinsurance recoverable asset.

Letters of credit

The CICL Group provides finance under its Club Facility to enable its subsidiaries to continue trading and to meet its liabilities as they fall due, as described in Note 10.

Future lease commitments
The CICL Group leases office space and equipment under non-cancellable operating lease agreements, which expire at various times. Future minimum annual lease commitments for non-cancellable operating leases as at 31 December 2009 are as follows:

(US dollars in millions)	
2010	$14
2011	$14
2012	$13
2013	$17
2014 and thereafter	$121
Total	$179

Under non-cancellable sub-lease agreements, the CICL Group is entitled to receive future minimum sub-lease payments of $11 million (2008: $14 million).

19 Related parties

The CICL Group purchased services from Catlin Estates Limited and Burnhope Lodge, both of which are controlled by a Director of the CICL Group. The cost of the services purchased from Catlin Estates Limited and Burnhope Lodge in 2009 and 2008 was insignificant.

The CICL Group purchased services from 4C Associates Ltd, the owner of which is related to a member of management of the CICL Group. The cost of the services purchased from 4C Associates Ltd in 2009 was insignificant (2008: $nil).

All transactions with related parties were entered into on normal commercial terms.

The balances due to the company's parent represent inter-company expenses paid on behalf of the other party.

20 Subsequent events

Preferred share dividend
The Board of Catlin Bermuda approved a dividend of $22 million to the shareholders of the non-cumulative perpetual preference shares. This dividend was paid on 19 January 2010.

Management has evaluated subsequent events until 23 March 2010, the date of issuance of the financial statements.