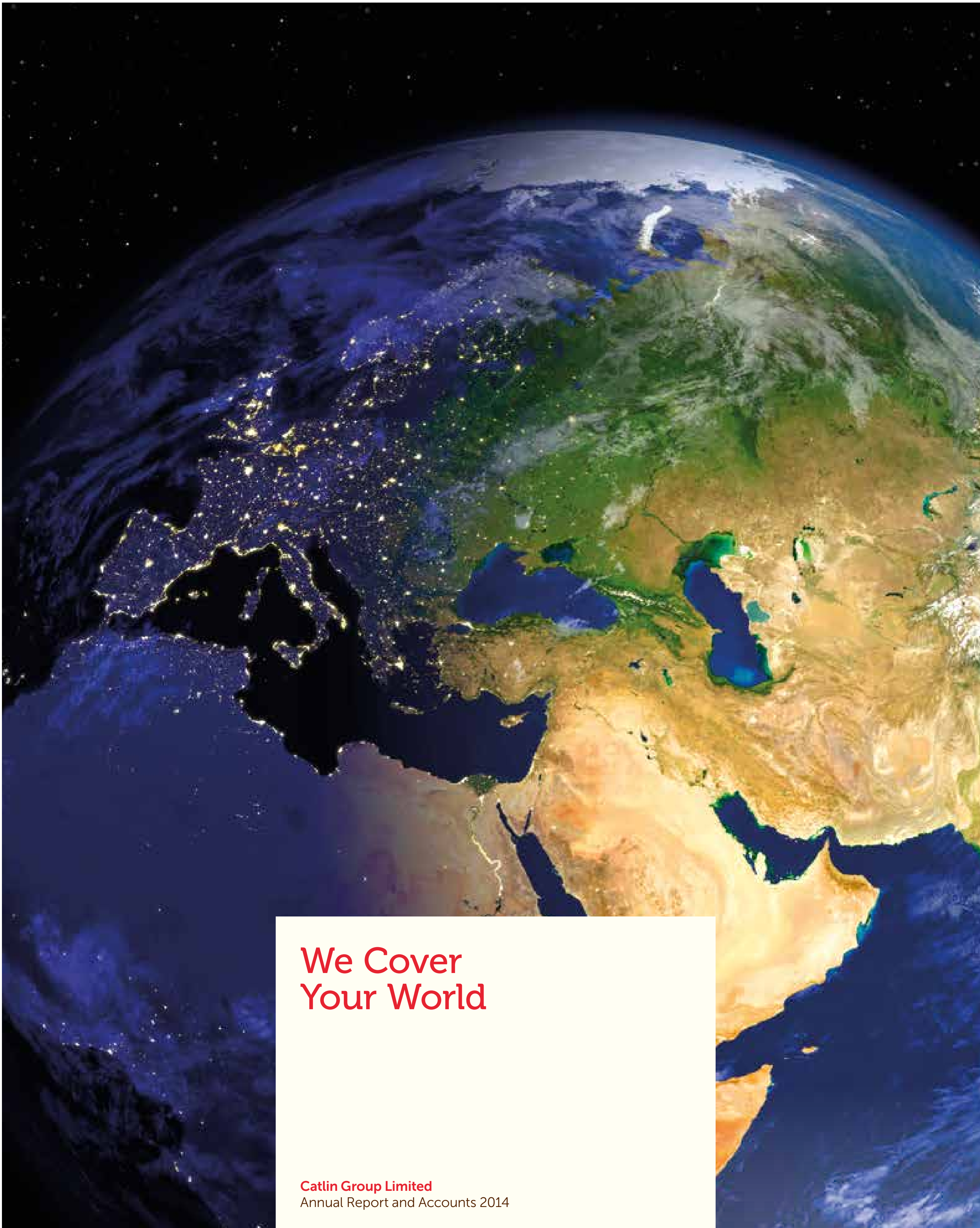


We Cover Your World

Catlin Group Limited
Annual Report and Accounts 2014

CATLIN

We Cover Your World

"Catlin established its first offices outside London in 1999. We realised that to truly build a business for the future Catlin could not simply rely on London wholesale business; we had to get closer to our clients and brokers. Combined with the Group's other strengths, our global reach has allowed Catlin to produce superior value for shareholders."

Stephen Catlin
Chief Executive

Catlin's Advantages: Global Reach

Diversification

Catlin's international hub structure allows the Group to underwrite business it would not ordinarily see. This diversification results in superior portfolio management.

Mark Newman
CEO, Catlin Asia-Pacific

Page 4

Stable Pricing

Rates tend to be steadier in regional markets as opposed to wholesale markets such as London or Bermuda, leading to a more stable profit base.

Ralf Tillenburg
CEO, Catlin Europe

Page 5

Business Expansion

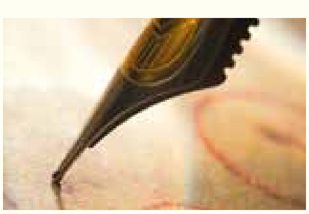
By operating as a local insurer in all major insurance markets, Catlin is able to build closer, longer-lasting relationships with its clients and brokers.

Peter Schmidt
CEO, Catlin Re Switzerland

Page 6

Underwriting Excellence

Catlin combines its focus on disciplined underwriting with superior portfolio selection and underwriting talent to produce consistently strong underwriting results.



Page 18

Claims Excellence

The Group prides itself on being responsive to clients and brokers following a claim. However, good claims management begins long before a claim arises.

Page 28

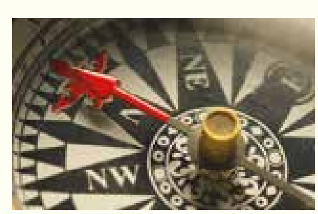
Serving Our Communities

Catlin believes it has a responsibility to make our communities better places to live, whether through local projects or global initiatives such as the Catlin Seaview Survey.

Page 49

Our Values

Five core values – transparency, accountability, teamwork, integrity and dignity – form the foundation which underpins all of the Group's activities.



Page 60

Operational and Financial Highlights

Profit before tax (US$m)

488m

Net underwriting contribution (US$m)

991m

Return on net tangible assets

16.3%

Attritional loss ratio

50.6%

Highlights

- 13% increase in profit before tax
- Continued strong underwriting performance
- 86.8 per cent combined ratio
- 79% increase in total investment return

Significant increase in shareholder value

Book value per share plus dividends paid during the year increased by 19 per cent in sterling terms; the US dollar increase was 12 per cent.

5 per cent increase in total dividend

The total dividend increased to 32.5 pence per common share (not including special dividend of up to 12 pence from sale of Box Innovation Group).

Continued growth by non-London hubs

These hubs produced 54 per cent of gross premiums written and 47 per cent of net underwriting contribution.

Levels of service praised by brokers

Catlin's London underwriting and claims service was rated top of class by brokers in an independent survey.

Catlin at a Glance

Six underwriting hubs

Catlin writes insurance and reinsurance worldwide through six underwriting hubs. These hubs allow Catlin to operate as a 'local insurer' around the globe.

Canada
$151m 4 70
Coverage written for Canadian assures from four offices
Page 35

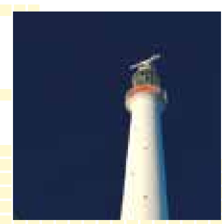
Gross premiums written
Offices
Employees

5,966
GPW
Catlin's gross written premiums totalled US$5.97 billion.

55
Offices
The Group operates from 55 offices worldwide.

2,517
Employees
Catlin employed 2,518 people at 31 December 2014.

US
$1.37bn 18 575
Insurance and reinsurance for US and Latin American clients
Page 31



Bermuda
$577m 1 68
Worldwide reinsurance portfolio and corporate headquarters
Page 32

Six product groups (GPW in US$m)

Aerospace

2014	$373
2013	$355

Includes Airline, General Aviation, Airport, Aviation Products and Space/Satellite

Casualty

2014	$1,303
2013	$1,167

Includes General Liability, Professional Lines, Healthcare Liability, Financial Lines and Motor

Energy/Marine

2014	$932
2013	$836

Includes Upstream and Downstream Energy, Energy Liability, Onshore Energy & Power, Marine Hull, Cargo, Marine Liability and Specie

Property

2014	$746
2013	$629

Includes US & International Property, Binding Authorities, Commercial Combined and Construction & Engineering

Reinsurance

2014	$2,076
2013	$1,850

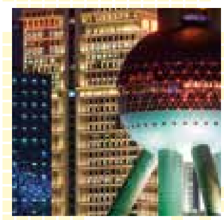
Includes Property, Casualty, Marine & Aviation, Agriculture and Specialty

Specialty/War & Political Risk

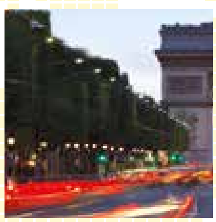
2014	$539
2013	$474

Includes Accident & Health, Life, Equine, Livestock, Aquaculture, Forestry, Contingency, Political Violence & Terrorism, Political Risk, Trade Credit, Product Recall and Kidnap & Ransom

London
$2.76bn **4** **983**
London market wholesale and UK regional business
Page 30



Asia-Pacific
$458m **10** **390**[1]
Regionally focused business in Asia and Australia
Page 34



Europe
$643m **18** **431**[1]
Insurance and reinsurance written from 18 offices in Europe
Page 33

1 Includes Shared Services employees

Four financial reporting segments

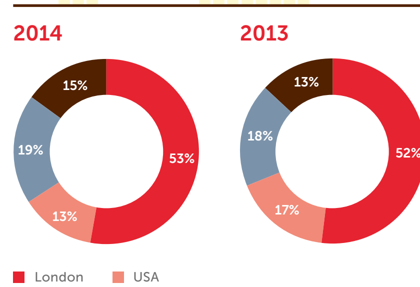
2014 US$m

	London	US	Bermuda	International
Gross premiums written	2,763	1,374	577	1,252
Net premiums earned	1,895	937	449	879
Net underwriting contribution	527	129	188	147
Loss ratio	47.7%	63.5%	34.2%	60.1%

2013 US$m

	London	US	Bermuda	International
Gross premiums written	2,474	1,213	577	1,045
Net premiums earned	1,832	858	486	772
Net underwriting contribution	523	168	183	129
Loss ratio	48.1%	59.6%	39.1%	62.3%

Net underwriting contribution



For financial reporting purposes, Catlin combines the results of the Europe, Asia-Pacific and Canada underwriting hubs to form the International segment.

Diversification

"Most of the business Catlin underwrites in the Asia-Pacific hub is organically grown. We are able to write it only because we are physically present in the region."

Mark Newman
Chief Executive Officer
Catlin Asia-Pacific

Catlin's global network of offices gives the Group access to a more widely diversified risk portfolio.

The non-London hubs produced 47 per cent of net underwriting contribution in 2014.

47%

These hubs wrote US$3.2 billion in gross premiums in 2014.

3.2bn

Catlin began building an international operating structure more than a decade ago because the Group realised the advantages of diversifying from its traditional base in London.

Catlin now operates six underwriting hubs with a total of 55 offices located in 25 countries. Catlin has a meaningful presence in every major insurance/reinsurance marketplace in the world. The Group's geographic spread gives it access to business that it would not have an opportunity to underwrite on a wholesale basis at Lloyd's. However, the development of these offices has not impacted the Group's London hub.

Local presence

While major, complex risks will be placed on a wholesale basis, most insurance policies are written in an assured's local marketplace. It is only natural for clients to want to do business with local counterparties who speak a common language and share a common culture. By establishing offices in key locations around the globe, staffed with local insurance professionals, Catlin is seen by clients and brokers as a local, trusted trading partner. In addition, by creating a global footprint, Catlin's structure matches the evolving globalisation of major insurance brokerages.

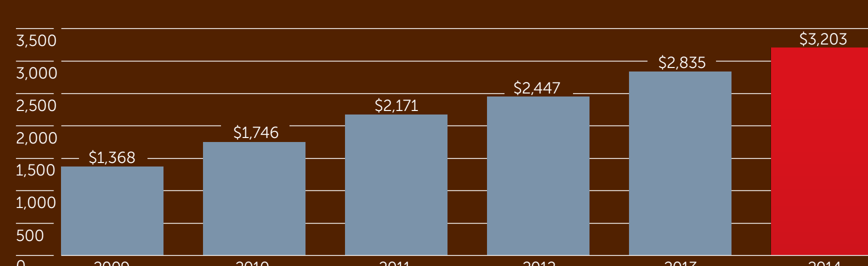
Different dynamics

The business that is placed in local retail markets – whether in the United States, Europe or the Asia-Pacific region – is often much different from the risks placed in London. These Catlin offices more commonly serve smaller clients that are looking for stable, long-term relationships with their insurers. Much of the business written in these offices is uncorrelated with London wholesale business. Diversification of Catlin's portfolio helps create earnings stability as well as provides an alternative source of quality business.

Rising volume and profits outside of London hub

Catlin has steadily grown the business underwritten by the non-London hubs. In 2014 these hubs produced 54 per cent of gross premiums written by the Group, compared with only 37 per cent in 2009. Over time, the hubs have also become more profitable; they have produced nearly 50 per cent of the Group's net underwriting contribution in each of the last two years.

Non-London hubs gross premiums written 2009–2014 (US$m)



We Cover Your World

Stable Pricing

"One of the greatest advantages of a geographically diversified portfolio of business outside of wholesale markets is the more stable rate environment."

Ralf Tillenburg
Chief Executive Officer
Catlin Europe

One of the disadvantages of focusing on writing wholesale insurance and reinsurance is the severe price swings that can occur in these markets.

Historically, wholesale insurance business has been much more price-sensitive than retail business written in local markets. When market conditions harden, such as after major catastrophe events, rates charged in a wholesale market such as London usually increase dramatically. However, during more competitive phases of an insurance market cycle, rates can fall quickly for wholesale business.

Likewise, reinsurance pricing can be volatile, especially in the London and Bermuda markets where large amounts of Property Catastrophe reinsurance are written. Rates are often more stable in regional markets, where there is less emphasis on Catastrophe coverage.

Stable environment
Stable pricing is one of the advantages of Catlin's broad global footprint. While insurers, such as Catlin, with a truly diversified book of business do not reap all the advantages of huge rate increases when a wholesale market turns, neither do they face the prospect of year-on-year double-digit decreases in rates when conditions in these markets soften. And, in insurance, what goes up usually goes down, sometimes more quickly.

Catlin's multiple hub structure helps the Group maintain stable pricing. In the current competitive market, average weighted premium rates in Catlin's US and International segments (Europe, Asia-Pacific and Canada hubs) are considerably stronger than in London or Bermuda.

Catlin's flexible capital structure allows the Group to deploy capital to those hubs where rating conditions are the strongest. For example, the largest growth in gross premiums written in 2014 was in the Europe, Asia-Pacific and Canada hubs, which benefited from a more stable rating environment.

Pricing in local, primarily retail markets is often more stable than in a wholesale-driven market like London.

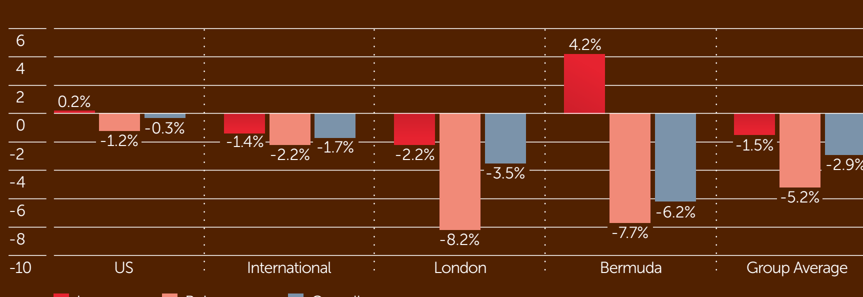
Average weighted premium rates in the US hub decreased by 0.3 per cent in 2014.

-0.3%

Bermuda rates decreased by an average of 6.2 per cent.

-6.2%

2014 average weighted premium rate movements by financial reporting segment (%)



We Cover Your World

Business Expansion

"Operating close to our clients and their brokers means more personal interaction. That is a prerequisite for writing more and better business."

Peter Schmidt
Chief Executive Officer
Catlin Re Switzerland

Operating worldwide as a local insurer and reinsurer allows Catlin to develop closer relationships.

Catlin operates from 55 offices worldwide.

55

Eighteen of those offices are located in Continental Europe.

18

Clients and their brokers are increasingly seeking closer, more stable relationships with a smaller number of insurers and reinsurers.

Catlin's global infrastructure allows the Group to stand apart from competitors to deliver the efficient, personalised service that clients and their brokers are seeking. Such relationships are much more difficult to develop and maintain if an insurer or reinsurer operates from a single location such as London.

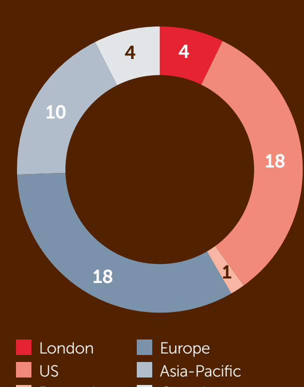
Greater market knowledge
Operating from 55 offices in 25 countries allows Catlin to really get to know the dynamics of each local market. This knowledge base allows Catlin underwriters and claims personnel to spot opportunities that would not be possible if business was conducted from afar. These employees – who share the same language and cultures as the clients and brokers they serve – simply have a better understanding of local problems and issues.

Catlin Re Switzerland, for example, has substantially increased its market position as a specialist European reinsurer since it began writing business in 2011, underwriting business that Catlin could not obtain from its historic London base. A major part of Catlin Re Switzerland's success is attributable to its underwriting staff's ability to comprehend the unique needs of cedants in Europe, which allows the underwriters to offer more appropriate solutions. In addition to its head office in Zurich, Catlin Re Switzerland has established branch offices in Italy and Spain to develop even more localised relationships.

Catlin's knowledge of local markets and its ability to readily understand clients' individual needs helps build trust, and mutual trust is the key to long-lasting relationships.

Catlin covers the world through six hubs
Catlin opened its first offices outside of London in 1999. In 2008 the Group formally adopted its current structure of six underwriting hubs: London, US, Bermuda, Europe, Asia-Pacific and Canada. Catlin's offices are strategically located to serve local markets and to take advantage of underwriting talent based in certain cities.

Location of Catlin offices
at 31 December 2014



We Cover Your World

For nearly two decades, the distinctive Catlin umbrella has been a familiar sight in the City of London.

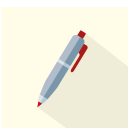
Over the years, Catlin has given clients and brokers thousands of its red, brown and cream umbrellas. As the Group's footprint has spread, so have the umbrellas: from Bergen to Bermuda, São Paulo to Sydney and Tokyo to Toronto.

The style of our umbrellas may soon be changing, but not our promise to deliver the best possible insurance and reinsurance products and services worldwide.

Catlin's Strategy

The Group's ultimate goal is to build a business for the future to enhance and sustain shareholder value. Our strategy has been implemented to realise this goal.

Four principal elements



Disciplined Underwriting

Catlin focuses on underwriting profit, not top-line growth. We reject business that does not meet minimum standards. We seek to maximise profits during all phases of an underwriting cycle through superior portfolio management, technical excellence and maximum utilisation of our broad distribution capabilities.
Page 18

Capital Preservation and Flexibility

Catlin believes that the preservation of capital is vital. We seek to enhance returns by balancing non-correlated classes of insurance/reinsurance business with more volatile classes, which builds value over time. Various forms of risk transfer are strategically used to protect capital from the impact of extreme events. Investments are managed to produce good returns without undue risk. Our corporate structure allows capital to be allocated efficiently to the areas of the business that present the best profit opportunities.
Page 36

Diversification

Catlin has developed a distinctive and efficient international structure. We operate six underwriting hubs serving the world's major insurance markets, whilst retaining a single set of core values that are the foundation for our actions and behaviour globally. We continually look for opportunities to diversify our risk portfolio, both by region and by class of business, to produce superior results over the long term.
Page 29

Culture

The Catlin Culture is built on five core values: transparency, accountability, teamwork, integrity and dignity. We seek to be a responsible partner to clients and brokers, and we strive to offer the best possible service, both when underwriting a policy and following a claim. Our culture helps us attract and retain high-calibre employees. Furthermore, we recognise our responsibilities as a company, both to our employees and to the communities in which we operate.
Page 61

What we do

Underwriting

Catlin underwrites a balanced portfolio of insurance and reinsurance worldwide. Our underwriting strategy focuses on technical pricing, access to different types of business on a global basis and superior management of our risk portfolio.

Catlin strives to be the best technical underwriter in the marketplace. A key Catlin advantage is the use of consistent underwriting models and embedding dedicated actuarial support within our underwriting teams worldwide.
Page 19

Claims management

Catlin recognises that the true value of an insurance company is demonstrated to clients only following a claim. We believe that the superior claims service we deliver to assureds and brokers improves relationships with clients and brokers and represents a distinct and important competitive advantage.
Pages 28 and 64

Investment management

Catlin invests more than US$9 billion in assets. Our investment goal is the creation of economic value, taking into account both the asset and liability sides of the balance sheet. We seek to achieve appropriate returns while minimising downside risk to capital.
Page 45

Business Model

How we do it better

Outstanding people and processes

Our people represent Catlin's greatest asset, and the Catlin Culture helps attract and retain talented individuals. We align our employees' interests with those of shareholders, linking reward with performance, particularly the creation of shareholder value. The Group's Strategic Transformation Programme is designed to deliver the processes, systems and data necessary to support a high-performance business.
Pages 48 and 62

Values and risk management

Catlin's employees embrace the Group's core values: transparency, accountability, teamwork, integrity and dignity. In addition, our operations are supported by a comprehensive risk management programme whose goal is to ensure the preservation of capital.
Pages 40 and 60

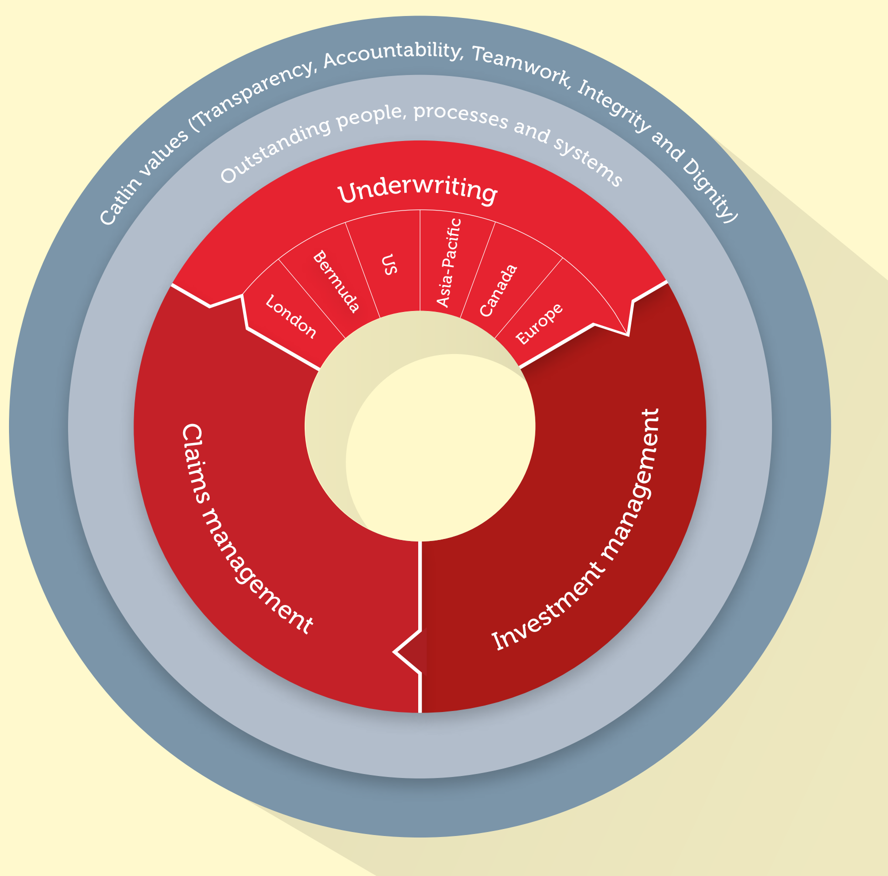
Alignment of business model with strategy

Catlin's business model is designed to ensure that the Group's strategy is effectively delivered for the benefit of shareholders and that clients receive the best possible service.

The business model consists of the Group's three primary activities:

- Underwriting insurance and reinsurance
- Managing and paying claims
- Investing assets

Our business model is designed to produce outstanding results for both clients and shareholders by employing highly talented people and providing them with excellent systems and tools with which to work. The Catlin Culture (see page 61), which permeates the business and is based on the five core values, encourages high levels of service and aims to strengthen relationships with clients and brokers, which produce the majority of the Group's business. A sophisticated risk management framework is embedded throughout the organisation.

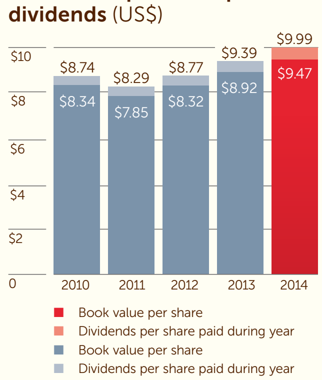


Key Performance Indicators

Catlin uses ten KPIs to measure performance against strategic objectives. The overall performance KPIs are relevant to the Group's performance-related bonus and employee share plans.

Overall performance KPIs

Book value per share plus dividends (US$)

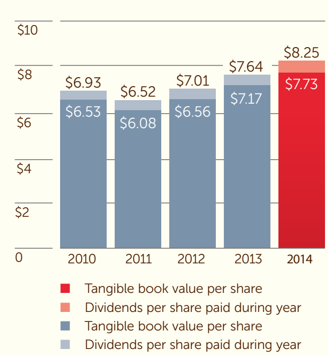


+12%

The Group believes that the change in book value per share, plus the common share dividends paid during a calendar year, is an appropriate measure of shareholder value creation. Shareholder value using this metric increased by 12 per cent during 2014. The vesting conditions of Catlin's performance-related share plans are based on growth in book value per share plus dividends paid during rolling three- and four-year periods.

Financial Review, page 78
Investor Relations, page 144

Net tangible assets per share plus dividends (US$)

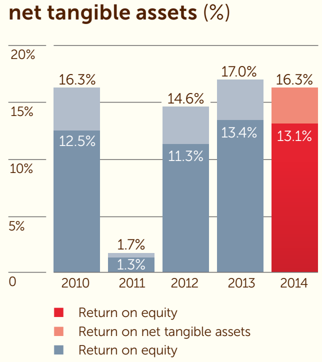


+15%

Shareholder value can also be measured on a similar basis by combining the annual increase in net tangible assets per share with the dividends paid to shareholders during a calendar year. Growth in net tangible assets per share more accurately assesses the Group's performance against its underwriting capital, which excludes goodwill and other intangibles. Measured on this basis, shareholder value increased by 15 per cent during 2014.

Financial Review, page 78
Investor Relations, page 144

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

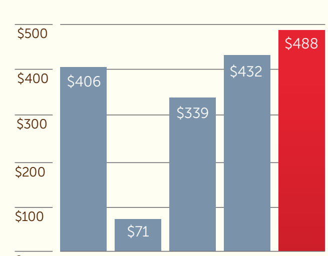


+13.1%/16.3%

Catlin aims to produce a return on equity that is 10 percentage points above the risk-free rate over an underwriting cycle. Catlin has exceeded this target on a cumulative basis – and in nearly every year – since the Group's IPO in 2004. Return on equity amounted to 13.1 per cent, whilst return on net tangible assets was 16.3 per cent in 2014. While both measures decreased compared with the prior year, the Group's overall profitability increased in 2014.

Chief Executive's Review, page 14
Financial Review, page 78

Income before income tax (US$)



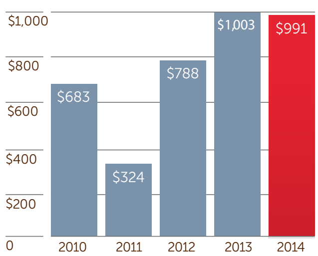
US$488m

Pre-tax profitability is an effective measure of the combination of underwriting performance, expense control and investment return. Continued strong underwriting performance and improved investment performance during 2014 were the primary drivers of the 13 per cent increase in profits before tax to US$488 million.

Chief Executive's Review, page 14
Financial Review, page 78

Disciplined Underwriting

Net underwriting contribution (US$m)

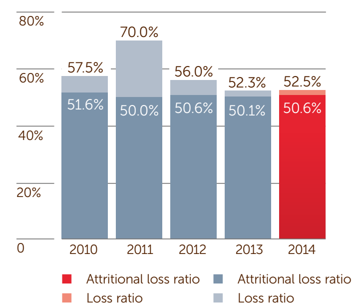


US$991m

Net underwriting contribution is the principal barometer of Catlin's underwriting performance. The Group produced net underwriting contribution in 2014 of US$991 million, marginally less than the record amount produced the previous year. The continued strong performance reflects the Group's focus on disciplined underwriting and superior portfolio management, along with relatively benign years for catastrophe events.

Underwriting Review, page 19

Loss ratio/Attritional loss ratio (%)



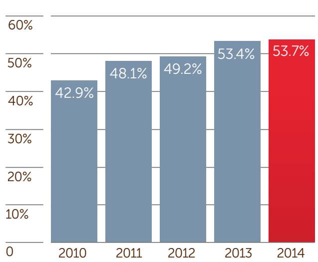
52.5%/50.6%

The loss ratio measures claims and reserve movements as a percentage of net premiums earned and is another measure of underwriting performance. The attritional loss ratio – which excludes catastrophe and large single-risk losses and reserve movements – is a measure of underlying underwriting profitability. The 2014 loss ratio of 52.5 per cent remained historically low, whilst the attritional loss ratio rose slightly.

Underwriting Review, page 19

Diversification

Gross premiums written by non-London underwriting hubs (%)



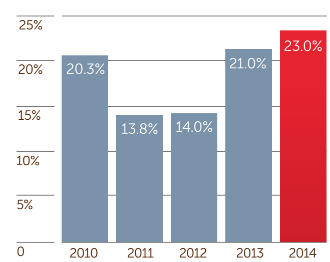
53.7%

A key component of the Group's operating strategy is geographic diversification. Over the past decade, Catlin has established underwriting hubs outside its traditional London base. This has not only reduced the Group's reliance on London wholesale business, it has helped Catlin build stronger relationships with brokers and clients worldwide. Nearly 54 per cent of Catlin's business was produced by the non-London hubs in 2014, a small increase over the previous year.

Underwriting Review, page 19
Diversification, page 29

Capital Preservation and Flexibility

Capital buffer (%)



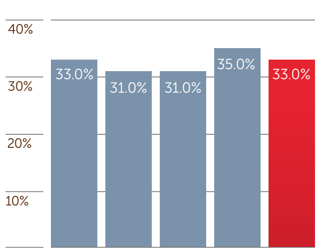
23%

Catlin defines available capital as its net tangible assets and the perpetual preferred shares issued by Catlin Bermuda. The Group strives to maintain a buffer of available capital that is between 10 per cent and 20 per cent of required economic capital. The capital buffer at 31 December 2014 stood at 23 per cent, an increase from 21 per cent a year earlier and just above the targeted range.

Capital, page 36

Culture

Claims performance (%)

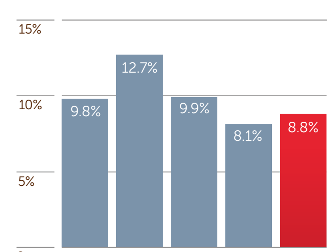


33%

Catlin believes that an insurer provides greatest value to clients following a claim. Catlin uses a survey by Gracechurch Consulting to measure claims handling performance. The survey asks London market claims brokers to rate insurers' claims handling performance; the score is the percentage of brokers rating an insurer as 'excellent' minus those rating the insurer as 'poor'. Catlin has ranked first by this measure for the past six years and in 2014 ranked six percentage points ahead of its closest competitor.

Culture: Marketplace, page 64

Voluntary employee turnover (%)



8.8%

Catlin's most important resource is its people, and the Group places great emphasis on attracting and retaining high-calibre employees. The employee turnover rate measures the Group's success in retaining staff. The voluntary employee turnover rate (excluding redundancies) was 8.8 per cent, below the five-year average. Voluntary turnover among underwriting employees amounted to 7.2 per cent (2013: 7.3 per cent).

Culture: Workplace, page 62

Chairman's Statement

These are exciting times for Catlin and its shareholders, due to the strong financial performance the Group has produced during 2014 and the £2.79 billion offer by XL Group plc to acquire Catlin, which the Board of Directors has recommended.

2014 performance

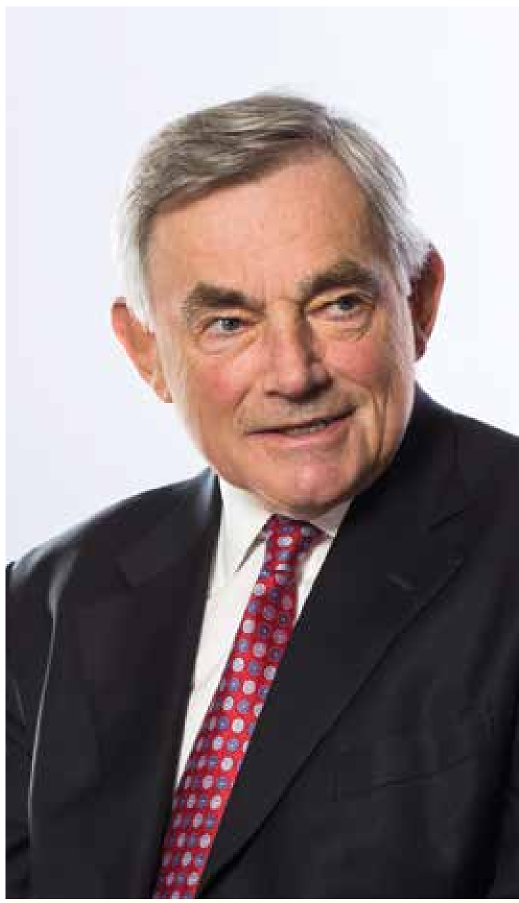
I am pleased to report that Catlin again produced good financial results in 2014, despite the increasingly competitive conditions in many sectors of the marketplace. Profits before tax increased by 13 per cent to US$488 million, while return on net tangible assets amounted to 16.3 per cent.

Catlin's underwriting performance continued to be strong. Net underwriting contribution amounted to US$991 million, just short of the record set in 2013, while the attritional loss ratio – which measures the underlying profitability of Catlin's risk portfolio excluding catastrophe and large single-risk losses and reserve movements – remained low at 50.6 per cent.

Total investment return amounted to US$241 million or 2.6 per cent of invested assets, a 79 per cent increase. A portion of this increase – $31 million – is attributable to gains on loans made to Box Innovation Group, the parent of telematics auto insurer Insure the Box ('ITB'). Catlin announced in December that it would sell its stake in ITB. The disposal is expected to close in the first quarter of 2015, at which time the remainder of the gain on this investment will be realised.

Shareholder returns and dividends

Net tangible assets per share increased by 8 per cent in 2014 to US$7.73 per share, while book value per share rose by 6 per cent to US$9.47 per share.



US$488m
13 per cent increase in profits before tax

32.5 pence
5 per cent increase in total dividend per share

12.0 pence
Estimated value of special dividend

- Strong underwriting performance
- Low attritional loss ratio
- Excellent shareholder returns

"Since the Group's initial public offering in 2004 through 31 December 2014, Catlin shares produced total shareholder return of 284.8 per cent, compared with 132.5 per cent for the FTSE 350."

John Barton
Chairman

The Board of Directors has declared a 2014 final dividend of 22 pence per common share (33.5 US cents), payable on 19 March 2015 to shareholders of record on 20 February 2015. Combined with the interim dividend, the total dividend payable for 2014 of 32.5 pence per share (51.2 US cents) represents a 5 per cent increase compared with the 2013 total dividend. In addition, the Board expects to declare a special dividend of approximately 12 pence per common share following the completion of the sale of ITB (see Chart 1).

Catlin shares have produced excellent total shareholder return, both over the medium and long terms. For the five years ended 31 December 2014, total shareholder return amounted to 173.8 per cent. This compares with the average total shareholder return of 51.2 per cent produced by the FTSE 350 during the same period.

Since the Group's initial public offering in 2004 through 31 December 2014, Catlin shares produced total shareholder return of 284.8 per cent, compared with 132.5 per cent for the FTSE 350.

Board of Directors

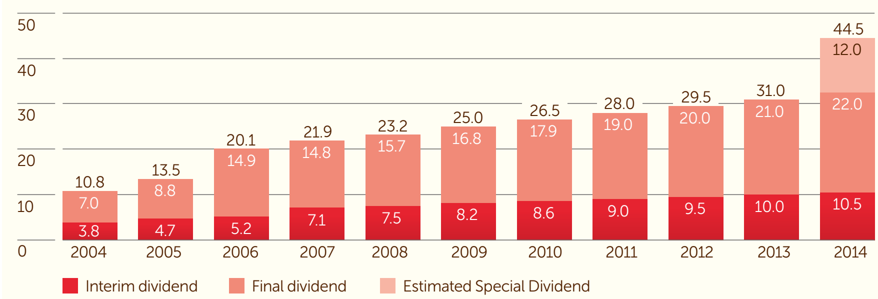
Claus-Michael Dill and Beatrice Hollond joined the Board as Non-Executive Directors in May 2014. Claus-Michael was formerly Chief Executive Officer of AXA Konzern AG in Cologne, responsible for operations in Germany and Central Europe. Beatrice is Chairman of Keystone Investment Trust plc and has had a long career in the investment industry. Both Claus-Michael and Beatrice made important contributions to the Board's discussions during the year.

XL offer

While XL and Catlin are well-positioned to succeed on their own, each company believes that combining operations would put the merged companies in a better position to face many of the key challenges now evident in the property/casualty insurance and reinsurance sector.

Chart 1

Catlin dividend progression since initial public offering (UK pence per share)



Under the terms of the offer, Catlin shareholders would receive 388 UK pence in cash and 0.130 new XL shares for each Catlin common share they hold. Details of the offer are included in our press release dated 9 January 2015 and further details will be provided in due course.

The Catlin Board of Directors have considered the terms of the XL offer in relation to the value and prospects and the potential medium-term stand-alone value of Catlin. The Board of Directors intends to recommend that shareholders vote in favour of the offer because it makes strong strategic and financial sense for Catlin shareholders.

In connection with the XL offer, Stephen Catlin is expected to join the Board of Directors of XL Group plc as Executive Deputy Chairman once the transaction is completed. In addition, it is expected that an additional Catlin Director, who meets applicable independence qualifications and other criteria, will join the XL Group Board.

Conclusion

I have been privileged to serve as a Director of Catlin since December 2011 and as Chairman since May 2012, and the Group has made great progress over that period. The Catlin brand is recognised globally for underwriting excellence and exemplary levels of service, and I am confident that Catlin would have continued to perform well as an independent company. However, my fellow Directors and I agree that the business combination with XL would lead to a stronger future for Catlin and result in the realisation of significant value for our shareholders.

I wish to thank all of those who work at Catlin for their hard work and loyalty to the Group. I would particularly like to thank Stephen Catlin, who founded the Group more than 30 years ago and who has never tired in his goal of building a business for the future. I wish Stephen and all other Catlin employees the best of fortune in the future.

John Barton
Chairman
9 February 2015

Chief Executive's Review

16.8%
Average return on net tangible assets since IPO in 2004

2.6%
Total investment return during 2014

14,000
Number of graduates applying for Catlin's development programme

- Hub network is key advantage
- Emphasis on service excellence
- Building a business for the future

"I believe that the combination of XL and Catlin would result in a broader, better balanced and more efficient underwriting organisation that would be able to compete more effectively in the evolving marketplace."

Stephen Catlin
Chief Executive

After 30 successful years, it is proposed that Catlin will become part of XL Group plc during the first half of 2015, subject to the necessary approvals. While most attention is now on the proposed XL-Catlin business combination, I am proud to report that Catlin produced excellent results in 2014.

The Group continued to grow profitably and to demonstrate that our operating strategy – based on disciplined underwriting and diversification – successfully differentiates Catlin from many of its peers.

Catlin has made great progress since its initial public offering in 2004, as shown in Table 1.

Table 1

Catlin key statistics 2004–2014

	2014	2004
Gross premiums written (US$m)	**5,966**	1,434
Employees	**2,517**	316
Offices	**55**	7
Countries in which offices are located	**25**	6
% of gross premiums written by non-London hubs	**54%**	7%
Market capitalisation (£m)	**£2,695[1]**	£539

1 Estimated value of XL offer less final and special dividends; calculated on a fully diluted basis

From the date of the IPO through 31 December 2014, Catlin shares produced total shareholder return of 284.8 per cent, compared with 132.5 per cent for the FTSE 350.

In what is likely my final Chief Executive's Review, I would like to first focus on Catlin's achievements during 2014, then comment on the XL offer.

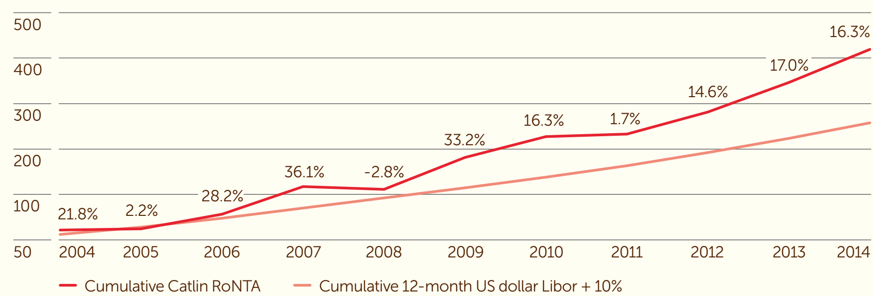
2014 financial results

Profits before tax increased by 13 per cent to US$488 million (2013: US$432 million). Net income to common shareholders increased by 7 per cent to US$418 million (2013: US$392 million). Return on net tangible assets amounted to 16.3 per cent (2013: 17.0 per cent), while return on equity was 13.1 per cent (2013: 13.4 per cent).

Catlin's goal, set at the time of our initial public offering in 2004, has been to produce shareholder returns over the course of a cycle that exceed the risk-free rate by 10 percentage points. I am happy to say that we have continued to meet that target. Catlin's average return on net tangible assets since the IPO amounts to 16.8 per cent, while the risk-free return over that period has averaged 2.3 per cent (see Chart 1). Average return on equity over the period was 13.2 per cent.

Chart 1

Return on net tangible assets against target 2004–2014 (Cumulative return %)



Average Catlin RoNTA (US dollars) during period: 16.8%
Average Catlin RoE (US dollars) during period: 13.2%
Average risk-free rate +10% during period: 12.3%

Catlin's operating strategy consists of two other important components apart from disciplined underwriting and diversification: capital preservation and what we call the Catlin Culture, which serves as the foundation for everything we do. An analysis of the Group's 2014 performance against our strategic principles follows.

Disciplined Underwriting

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Catlin is first and foremost an underwriting organisation, so disciplined underwriting serves as the ultimate focus of the Group. The message is simple: we underwrite for a profit and have done so since the Group was established in 1984. While Catlin is often categorised as a growth company, we are much more interested in increasing profitability than top-line growth.

2014 was a successful year when examined against our strategy of disciplined underwriting:

- Net underwriting contribution – our most basic measure of underwriting performance – amounted to US$991 million in 2014, just short of the record level achieved during the previous year (2013: US$1.00 billion). However, this can be viewed as a particularly successful outcome in the light of increased competition during 2014 across many of the business classes which Catlin writes.
- Our attritional loss ratio of 50.6 per cent remained at a low level (2013: 50.1 per cent).
- The loss ratio – which includes catastrophe and large single-risk losses and reserve movements – was virtually flat against the previous year at 52.5 per cent (2013: 52.3 per cent).

While the unprecedented series of catastrophe losses during 2011 is still fresh in our minds, insurance markets' memories are often much shorter. Despite the losses sustained by the insurance industry just three years earlier, average weighted premium rates across Catlin's portfolio place decreased by 2.9 per cent during 2014 (2013: 0.8 per cent increase). Average rates decreased in five of the Group's product groups. However, our rating levels were superior to those of many other insurers and reinsurers. Why? Our performance is attributable to our analytical pricing abilities, our superior portfolio management skills, and the strength, knowledge and professionalism of our underwriting teams.

Catlin's reserving policy has led to releases from prior-year loss reserves every year since the IPO in 2004, which itself is another indicator of disciplined underwriting. During 2014 the Group released US$120 million from prior-year reserves (2013: US$167 million), which was equivalent to 2 per cent of opening reserves (2013: 3 per cent).

Diversification

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2014 marked the 15th anniversary of the opening of Catlin's first offices outside of London. The five non-London underwriting hubs – US, Bermuda, Europe, Asia-Pacific and Canada – wrote US$3.20 billion in gross premiums, or 54 per cent of the Group's total volume. In other words, these offices wrote more gross premiums in 2014 than the entire Group wrote eight years earlier.

More importantly, these hubs contributed 47 per cent – or US$464 million – of our net underwriting contribution (2013: US$480 million or 48 per cent). Catlin's global infrastructure is one of the Group's greatest competitive advantages and is an important part of our overall profitability. We believe that these hubs – particularly the US and International hubs – are capable of significant profitable growth in the future.

While our international network of offices has developed considerably, we continue to establish offices in areas in which we believe a local presence would be worthwhile or to work with established underwriting teams who signal a desire to join Catlin. Last year, we expanded our presence in the Scandinavian market, opening offices in Copenhagen and Stockholm. We established an office in Lausanne to serve the French-speaking market in Switzerland. Finally, we opened an office in Dubai, which has become the centre of the Middle East insurance market.

Chief Executive's Review

Meanwhile, the London hub produced great results, especially considering the competitive nature of the London/Lloyd's market during 2014. Gross premiums written in London increased by 12 per cent, due to an increase in multi-year reinsurance contracts along with greater volumes of Property and Energy business. More importantly, the hub produced record net underwriting contribution of US$527 million (2013: US$523 million).

Capital Preservation and Flexibility

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Other than our employees, capital is Catlin's most cherished asset. We believe that the preservation of capital is vital for any insurer. We strive to make efficient use of our capital, making sure that every dollar works to build shareholder value. That's why we have consciously created a corporate structure where we can allocate capital quickly and efficiently to those areas of the business with the greatest profit potential.

Catlin continues to have a strong capital position. Our capital buffer – the difference between available capital and required economic capital – stood at 23 per cent at 31 December 2014, slightly above the target range of 10 per cent to 20 per cent.

We aim to preserve capital through a number of methods. Our global footprint and our efforts to diversify our risk portfolio helps us reduce correlation in our book of business and therefore reduce capital requirements. Our risk transfer programme – including our Catastrophe Aggregate protections – also serves as an efficient capital management tool by helping to preserve capital following major events. The risk transfer programme includes traditional reinsurers as well as non-traditional participants, including the use of catastrophe bonds.

We have increased capital flexibility over the past three years through our third-party capital programme. This programme includes Special Purpose Syndicates ('SPS') at Lloyd's, which provide whole-account quota-share reinsurance to the Catlin Syndicate, and the Portfolio Participation Vehicle ('PPV'), which provides similar collateralised protection to our non-Lloyd's underwriting entities. We have expanded this programme each year to date, and in 2015 third-party capital providers are putting up nearly US$350 million.

Catlin receives commissions and fees from these third-party capital arrangements. Commissions and fees recognised in 2014 amounted to US$66 million (2013: $28 million).

In one case, an SPS has grown into something larger. Catlin established a strategic partnership with China Re (Group) Corporation in November 2011 that included the formation of an SPS by China Re to write whole-account quota-share reinsurance for the Catlin syndicate. Three years later, China Re received permission from Lloyd's to transform its existing SPS into a stand-alone syndicate that, from 1 January 2015, is writing a diversified book of business. This syndicate, which will continue to reinsure the Catlin Syndicate in 2015, will be managed by a Catlin subsidiary for the next several years.

The formation of the China Re syndicate marks the first time that a Chinese-owned company has established a Lloyd's syndicate writing open market business. Catlin is delighted to be working in partnership with China Re to help establish its position in the Lloyd's market.

Catlin's investment strategy is to focus on capital preservation by creating economic value while managing earnings risk and maintaining liquidity. Our investment strategy has been tested during the past several years by the low interest rate environment, and gone are the days when an insurer's investment return often contributed as much to profits as its underwriting operations (see Chart 3). In 2014 the Group achieved a total investment return of 2.6 per cent (2013: 1.5 per cent). In monetary terms, total investment return amounted to US$241 million (2013: US$135 million). US$31 million of this return was produced by a gross valuation gain of loans made to Box Innovation Group, the parent of telematics auto insurer 'Insure the Box', for which Catlin agreed to the sale of its stake in December 2014. That gain represents 0.3 per cent of total investment return. A further estimated US$40 million gain on this investment will be realised when the disposal is completed, which is expected in the first quarter of 2015. A special dividend of approximately 12 pence per share is expected to be paid to shareholders upon completion.

Culture

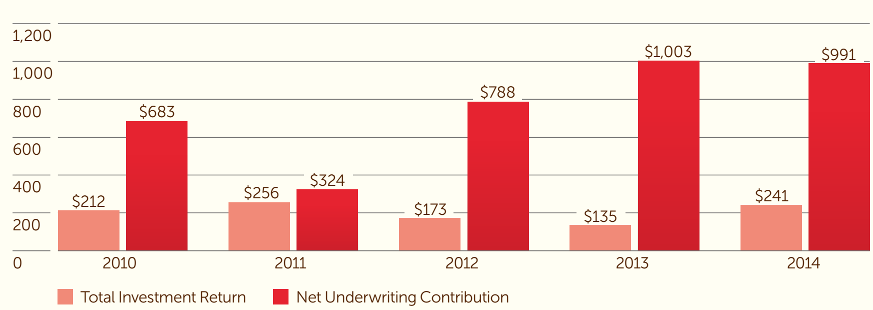
Page 61

Culture is extremely important at Catlin. The Catlin Culture – based on our core values of transparency, accountability, teamwork, integrity and dignity – places great emphasis on employees' personal responsibility, which encourages our people to think and act like owners. That's good for the business and good for shareholders.

Our culture is what fosters our high levels of broker and client service. We take very seriously the feedback we receive about service levels, including the annual surveys of brokers conducted in London by Gracechurch Consulting. Catlin has been the highest-ranked insurer overall in Gracechurch's claims surveys since 2007, and Catlin ranked first in nearly every overall criterion in the 2014 Gracechurch London Insurers Report.

Chart 3

Total investment return and net underwriting contribution 2010–2014 (US$m)



Through our culture, Catlin strives to improve the communities which it serves. We do this in a number of ways: charitable contributions, community involvement activities and sponsorship of projects that benefit communities as a whole. The latter incudes the Catlin Seaview Survey, now in its fourth year, which is helping scientists learn much more about how our oceans – and our planet – are changing. We know that the work of the Catlin Seaview Survey will provide benefits for future generations.

Catlin was also one of the sponsors of 'Blood Swept Lands and Seas of Red', the highly moving installation of 888,246 ceramic poppies at the Tower of London. The installation, designed to commemorate the centenary of the start of the First World War, inspired the estimated 4 million people who saw what became known as 'the poppies at the Tower', plus untold millions more who viewed the display via photos or video (see page 50).

The Catlin Culture is an effective recruiting tool. Prospective employees identify with our culture, especially our values, our emphasis on individual responsibility and our commitment to improving communities. The Catlin Development Programme, through which recent university graduates join the Group and receive professional and personal development training, attracted nearly 14,000 applications last year. Recent graduates responding to a 2014 online poll ranked Catlin as one of the top three UK companies at which to work.

XL offer

I have been asked many times over the past months why would Catlin agree to be acquired by a competitor. It's a good question. Catlin and XL had been discussing the future of both businesses for more than a year, and both companies' managements concurred that fundamental changes were taking place in the insurance industry. These include the increasing concentration among brokers; the need to invest in more expensive and more advanced data and analytics systems; the challenges raised by alternative capital; and increasing costs, particularly regulatory costs.

XL and Catlin determined separately that a business combination would be advantageous as merger and acquisition activity would likely increase in the insurance industry. At Catlin, we concluded that our best course would be to recommend XL's offer. In other words, if the industry is consolidating, wouldn't you rather choose the partner with which you want to work rather than have your partner chosen for you at a later date?

I believe that the combination of XL and Catlin would result in a broader, better balanced and more efficient underwriting organisation that would be able to compete more effectively in the evolving marketplace. The acquisition would bring together two highly compatible cultures based on an underwriting-first mentality. I am excited that upon completion I shall be joining the company, which will be known in the marketplace as 'XL Catlin', as Executive Deputy Chairman.

The XL offer, when completed, will result in significant added value for Catlin shareholders while still offering an investment opportunity in a company that I believe will become one of the true global leaders in our industry. I intend to hold XL shares as a long-term investment following the acquisition.

Conclusion

While the future that awaits XL Catlin is indeed exciting, I have to admit that I do feel a degree of sadness as the company which I established in 1984 enters what are likely to be its final months as an independent organisation. I believe that we have built something special at Catlin over the years, and I am especially proud that the Group has succeeded in our joint goals of providing excellent service to clients and brokers along with superior value to our investors.

I wish to pay tribute to the more than 2,500 people who currently work at Catlin. They – along with hundreds of past employees – are the principal contributors to Catlin's success, and I have been privileged to be their colleague. I thank them for their hard work and diligence, which is reflected in our 2014 accomplishments.

Catlin for 30 years has been building a business for the future, and we will continue to do so as part of a new, dynamic organisation.

Stephen Catlin
Chief Executive
9 February 2015

We Cover Your World

Underwriting Excellence

"Underwriting is at the very heart of Catlin. We are first and foremost an underwriting-driven organisation."

Paul Brand
Chief Underwriting Officer

Catlin's strategy is based on disciplined underwriting. The Group's focus is on underwriting profit.

Catlin produced an attritional loss ratio of 50.6 per cent in 2014.

50.6%

Catlin's global underwriting staff comprises 797 employees at 31 December 2014.

797

Since Catlin was established in 1984, the Group has placed overriding emphasis on underwriting excellence.

Thirty years later, nothing has changed. The cornerstone of the Group's operating strategy remains disciplined underwriting. Catlin focuses on underwriting for profit, not volume. The Group would rather lose business than to write it at an inadequate rate.

Art vs science

Catlin believes its worldwide underwriting team is among the best in the business. The Group's underwriters carefully price the business they choose to write, using sophisticated technical tools and with the support of actuaries working alongside the underwriting staff. However, underwriting is also an art – not just science – and Catlin expects its underwriters to rely not only on the latest models, but also on their time-tested professional judgment.

Catlin's scale and its global reach allow it to consider a wide range of business across nearly every class of commercial insurance and reinsurance. This allows the Group to manage its underwriting risk portfolio to select the most advantageous accounts. Catlin also has the ability to nimbly adjust its portfolio as market conditions change and new opportunities emerge.

Commitment to service

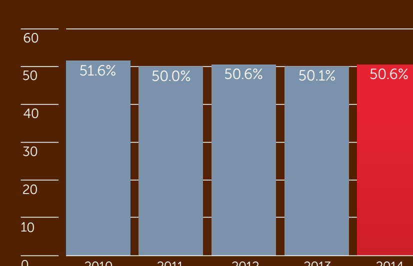
Brokers produce most of the business Catlin underwrites, and they are increasingly choosing to place business with the insurers which provide the best service. Catlin is one of those insurers: London brokers participating in a recent survey ranked Catlin as best in the market in a variety of categories, including service excellence, innovation, underwriting talent, and integrity and trustworthiness.

Catlin's superior results over the years, and again in 2014, reflect the Group's commitment to underwriting excellence.

Attritional loss ratio affirms underwriting discipline

A good judge of underwriting quality is the attritional loss ratio, which excludes the impact of catastrophe events, large single-risk losses and prior-year reserve movements. Catlin's attritional loss ratio has remained at less than 51 per cent for the past four years, an excellent performance. The Group produced an attritional loss ratio of 50.6 per cent in 2014, nearly level with the previous year, despite a decrease in average premium rates across the entire portfolio.

Attritional loss ratio 2010–2014 (%)



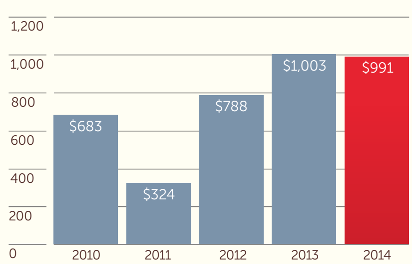
Underwriting Review

Summary

- Catlin produced US$991 million of net underwriting contribution in 2014.
- Focus on disciplined underwriting resulted in an attritional loss ratio of 50.6 per cent and an overall loss ratio of 52.5 per cent.
- Average weighted premium rates across Catlin's underwriting portfolio decreased by 2.9 per cent.
- Gross premiums written increased by 12 per cent to US$5.97 billion.

Chart 1

Net underwriting contribution (US$m)



Catlin produced another strong underwriting performance during 2014, with net underwriting contribution amounting to a near-record US$991 million (2013: US$1.00 billion). Net underwriting contribution over the past five years is shown in Chart 1.

Disciplined underwriting is a key component of Catlin's strategy, along with geographic and product diversification. This strategy continued to prove successful during 2014, as the Group produced an attritional loss ratio of 50.6 per cent (2013: 50.1 per cent) and an overall loss ratio of 52.5 per cent (2013: 52.3 per cent).

Gross premiums written grew by 12 per cent to US$5.97 billion (2013: US$5.31 billion), with the volume written by the non-London underwriting hubs rising by 13 per cent. The five non-London hubs produced net underwriting contribution amounting to US$464 million (2013: US$480 million), which represented 47 per cent of the Group's total net underwriting contribution (2013: 48 per cent).

Market review

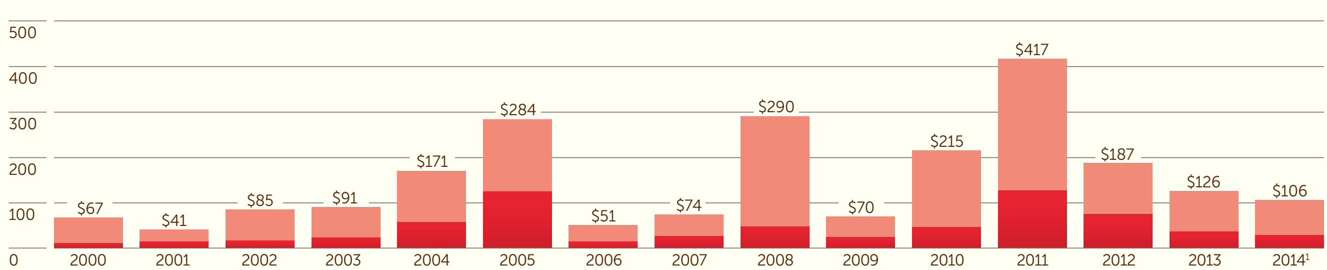
Loss experience

2014 was another benign year for catastrophe losses. Aon Benfield estimates that natural catastrophes caused US$132 billion in economic losses during 2014, 37 per cent less than the ten-year average of US$211 billion. Estimated insured natural catastrophe losses amounted to US$39 billion, again significantly less than the ten-year average of US$63 billion. Preliminary estimates from Swiss Re Sigma show that economic losses from natural catastrophe events decreased in 2014 to US$106 billion (2013: US$126 billion); insured losses amounted to US$29 billion (2013: US$37 billion) (see Chart 2).

Most of the 2014 losses were caused by extreme weather events. The ten largest natural catastrophes during the year in terms of insured losses are listed in Table 3 on page 20.

Chart 2

Insured and total economic losses from natural catastrophes, 2000–2014 (US$bn)



1 Preliminary estimate

Source: Swiss Re Sigma

Underwriting Review

Table 3

Largest insured natural catastrophe events in 2014[1]

Dates	Event	Location	Estimated fatalities	Structures damaged	Estimated economic loss (US$bn)	Estimated insured loss (US$bn)[2]
June 8–10	Severe weather	France/Germany/Belgium	6	750,000	4.0	3.0
May 18–23	Severe weather	United States	0	425,000	4.0	2.9
February 8–16	Winter weather	Japan	95	288,000	5.0	2.5
January 5–8	Winter weather	United States	21	150,000	3.0	1.6
Yearlong	Drought	United States	N/A	N/A	4.0	1.5
June 3–9	Severe weather	United States	3	115,000	1.7	1.3
September 10–17	Hurricane Odile	Mexico	5	50,000	2.5	1.1
April/May 27–1	Severe weather	United States	39	115,000	1.6	1.1
April 2–4	Severe weather	United States	0	160,000	1.5	1.1
Winter 2014	Flooding	United Kingdom	0	420,000	1.5	1.0

1 Estimates as at January 2015
2 Loss estimates include private insurance and government-sponsored insurance programmes
Source: Aon Benfield

The North Atlantic hurricane season was yet again much more benign than historic norms; it has now been a record nine years since a hurricane with the magnitude of Category 3 or higher has made landfall in the United States. There were only eight named storms during 2014 – the fewest since 1997 – of which only six reached hurricane force; two of these storms reached Category 3 intensity. The most significant storm was Hurricane Gonzalo, which made landfall in October in the Caribbean and Bermuda, causing an estimated US$100 million of insured losses and four fatalities.

In contrast, the Eastern and Central Pacific hurricane season was the most active on record since 1992, with 16 of the 22 named storms reaching hurricane force and nine reaching Category 3 status. However, only Hurricane Odile in September made landfall, killing five people and causing an estimated US$1.1 billion of insured losses in Mexico's Baja Peninsula.

The Pacific typhoon season was more muted, with 21 named storms falling short of the 34-year average of 27. Of these, 11 became typhoons. The most notable was Super Typhoon Rammasun, which made landfall in the Philippines and China. It caused approximately US$7.2 billion of economic damage, but only US$300 million of insured losses due to low insurance penetration in the region.

North Indian cyclone activity was broadly in line with long-term averages, but was marked by the significant damage and loss of life caused by Cyclone Hudhud in October. That storm made landfall on the Eastern coast of India, causing approximately US$650 million in insured losses and at least 68 deaths.

The strongest earthquake of the year was a magnitude-8.2 tremor that struck 1 April just off the shore of Chile near Iquique. Despite its strength, insured damage was much less than initially anticipated given the strength of local building codes.

Pricing

Average weighted premium rates across Catlin's underwriting portfolio decreased by 2.9 per cent during 2014 (2013: 0.8 per cent increase). Average weighted premium rates decreased by 6.1 per cent for catastrophe-exposed business classes and decreased by 0.7 per cent for non-catastrophe classes.

Chart 4 shows rate movements across all classes of business, as well as for catastrophe-exposed and non-catastrophe classes, since 1999.

Chart 5 shows aggregate rate movements for Catlin's six product groups – Aerospace, Casualty, Energy/Marine, Property, Reinsurance and Specialty/War & Political Risk – since 1 January 1999.

Average weighted rate movements by product group for the past two years are shown in Chart 6.

Despite improvements in rates on Airline business during renewals in the second half of the year following significant losses in the sector, overall rates for Aerospace business continued to decrease year on year as pricing trends early in 2014 were based on the benign loss experience in recent years.

Overall, average weighted premium rates for Casualty classes increased by 2 per cent during 2014. Rates continued to increase for US Casualty business written by the London and US hubs, albeit more modestly. In addition, rates for the Group's UK Motor business continued to improve, contrary to wider market trends.

Weighted average premium rates for Energy/Marine business decreased by 3 per cent in 2014. This was largely due to decreasing rates on Upstream Energy risks. Marine rates saw only slight reductions across all sub-sectors (Cargo, Hull and Specie).

The combination of increased capacity for catastrophe risks – both from traditional and non-traditional sources – and several years of relatively benign large loss experience caused rates for Property Treaty Excess of Loss reinsurance and other catastrophe classes to generally decrease. Rate movements for Property Catastrophe Excess of Loss reinsurance from 1 January 2013 onwards are shown in Chart 7.

Average weighted premium rates for direct Property business decreased by 3 per cent during the year. Rates on Binder business remained flat, but rates for US and International Property business reduced.

Chart 4

Rating indexes for catastrophe and non-catastrophe business classes (%)
1999–2014

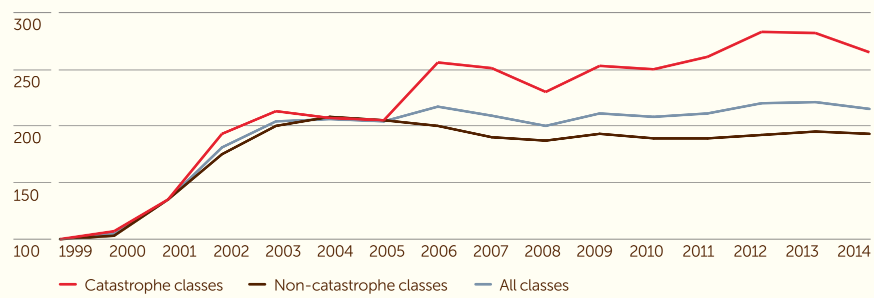
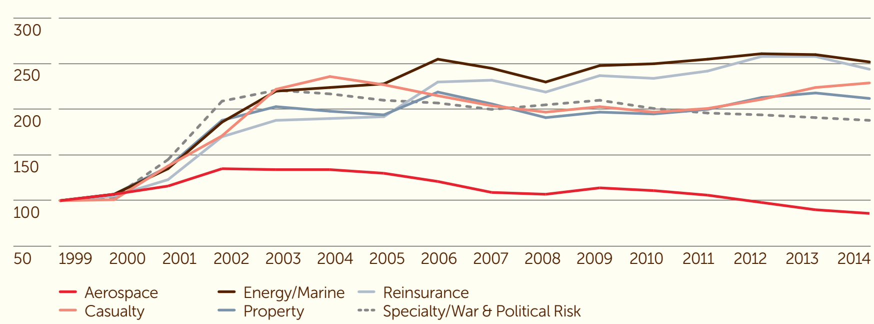


Chart 5

Rating indexes for product groups (%)
1999–2014



Rating index base: 100 per cent in 1999

Chart 6

Average weighted premium rate movements by product group (%)
2013–2014

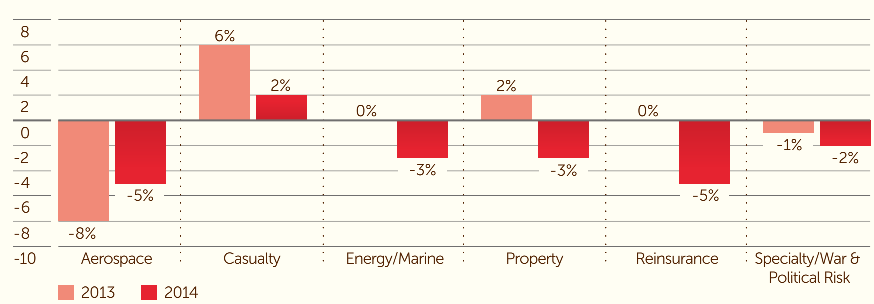
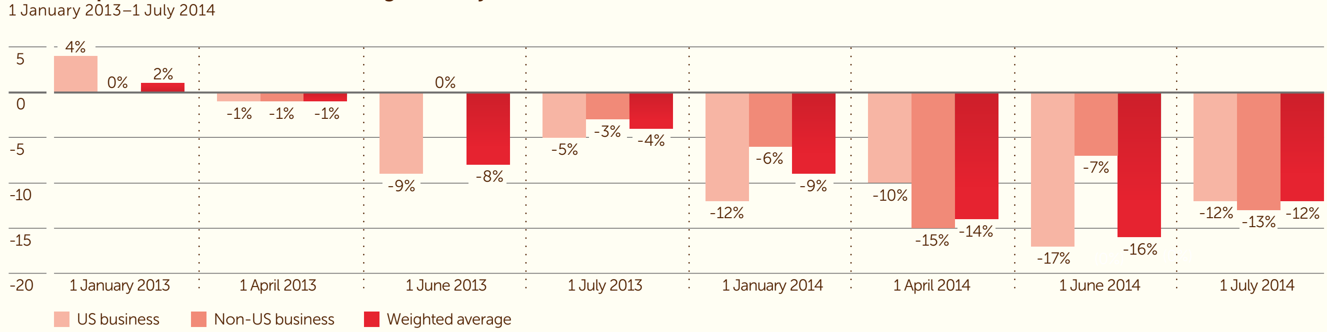


Chart 7

Catastrophe Excess of Loss rate changes at major renewal dates (%)
1 January 2013–1 July 2014



Underwriting Review

Rates for Specialty/War & Political Risk classes of business fell by 2 per cent. Specialty Lines rates generally increased during 2014, largely driven by rate increases on Personal Accident contracts. War & Political Risk rates decreased, reflecting benign loss experience and increased competition in the marketplace.

One of the advantages of Catlin's global footprint is that rating conditions are generally more stable in local markets than in major wholesale markets such as London and Bermuda. Chart 8 shows rating trends during 2014 for each financial reporting segment for insurance, reinsurance and all classes of business.

Gross premiums written

Gross premiums written by the Group increased by 12 per cent during 2014 to US$5.97 billion (2013: US$5.31 billion). However, the growth in gross premiums written was modestly inflated by items such as foreign exchange movements and an increase in the value of multiyear contracts written during 2014 in the London and Bermuda underwriting hubs. After adjusting for these items, the underlying growth in gross premiums written was approximately 7 per cent.

The gross premiums written by financial reporting segment – London, US, Bermuda and International – for the past five years are shown in Chart 9.

The aggregate gross premiums written in non-London hubs increased by 13 per cent to US$3.20 billion (2013: US$2.84 billion). The non-London hubs accounted for 54 per cent of the Group's 2014 gross premiums written (2013: 53 per cent).

Gross premiums written by the London underwriting hub in 2014 amounted to US$2.76 billion (2013: US$2.47 billion), a 12 per cent increase. The increased volume was attributable to growth in nearly all classes of business, particularly new and existing Property business and growth of Energy lines.

The Bermuda hub's volume was flat compared with 2013 at US$577 million. Volumes for Property Catastrophe Excess of Loss reinsurance decreased, due to the decision not to renew some business in light of rate reductions, but this was offset by additional Property Treaty Specialty lines business.

Chart 8

2014 average weighted premium rate movements by financial reporting segment (%)

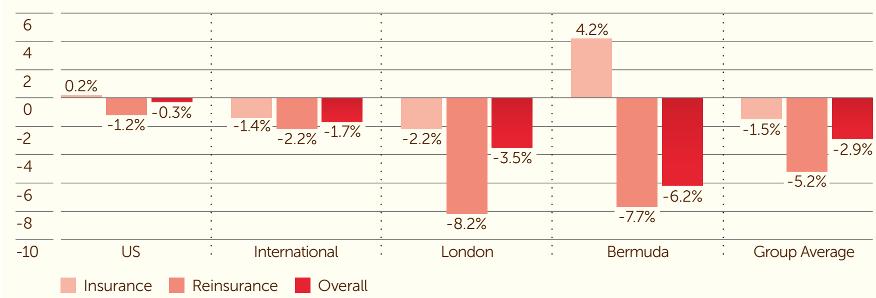


Chart 9

Gross premiums written by financial reporting segment (US$m)
2010–2014

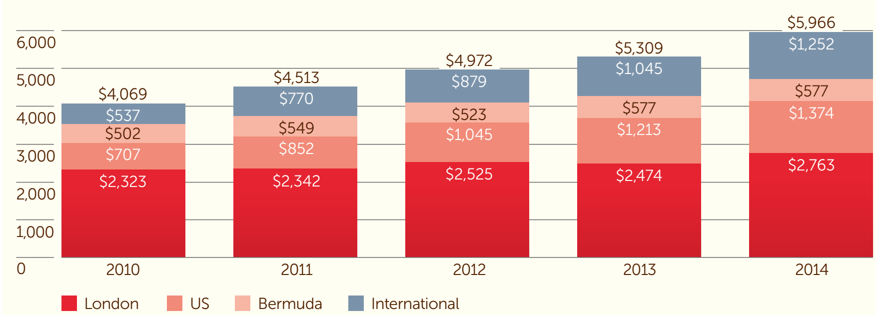
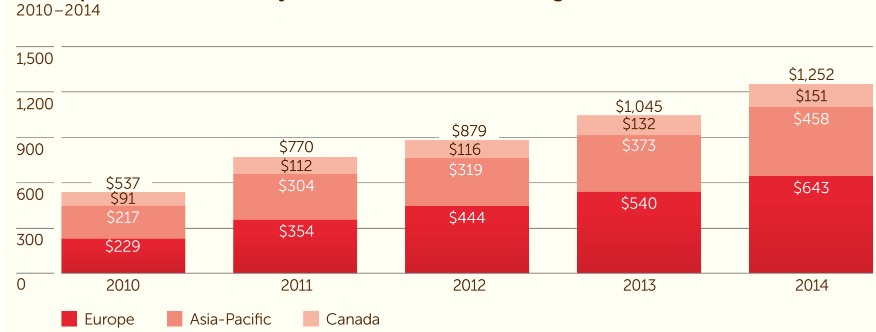


Chart 10

Gross premiums written by international underwriting hubs (US$m)
2010–2014



Gross premiums written by Catlin US grew by 13 per cent to US$1.37 billion (2013: US$1.21 billion). As in the London hub, volume grew across most of the portfolio, with particular growth in Direct Casualty, Casualty Treaty, Facultative Reinsurance and Energy business.

The International reporting segment includes the Asia-Pacific, Europe and Canada underwriting hubs. The proportion of the International segment's gross premiums written attributable to each of these hubs is shown in Chart 10.

Gross premiums written by the Europe underwriting hub rose by 19 per cent to US$643 million (2013: $540 million), due to solid growth by both Catlin Europe, which writes insurance business, and Catlin Re Switzerland, which underwrites reinsurance. The Asia-Pacific hub's gross premiums written rose by 23 per cent to US$458 million (2013: US$373 million) with growth across nearly all classes, notably a new Specialty Lines contract, growth in Agricultural reinsurance and new Property Treaty Catastrophe Excess of Loss business. Catlin Canada produced 14 per cent growth in gross premiums written to US$151 million (2013: US$132 million), with growth across almost all classes.

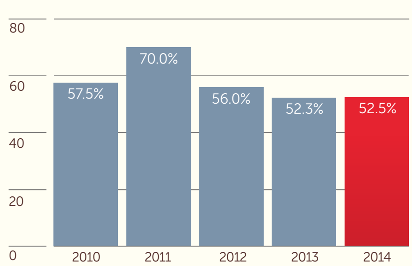
Underwriting performance

The Group produced US$991 million of net underwriting contribution in 2014, a reduction of 1 per cent from the record level in the prior year (2013: $1.00 billion). This strong underwriting performance was driven by the low attritional loss ratio combined with a lower level of catastrophe losses compared with 2013.

The Group's loss ratio amounted to 52.5 per cent in 2014 (2013: 52.3 per cent), a deterioration of 0.2 percentage points, but still significantly lower than the five-year average. A historic comparison of the Group's loss ratio is shown in Chart 11.

Chart 11

Loss ratio 2010–2014 (%)



A comparison of the components of the loss ratio in 2013 and 2014 is shown in Chart 12.

The attritional loss ratio – which excludes catastrophe losses, large single-risk losses and prior-year reserve movements – increased slightly to 50.6 per cent (2013: 50.1 per cent) during a year when average weighted premium rates across the portfolio decreased by 2.9 per cent. The attritional performance demonstrates the Group has maintained strong underwriting discipline while continuing to expand its business, even in a year in which conditions were competitive for many classes.

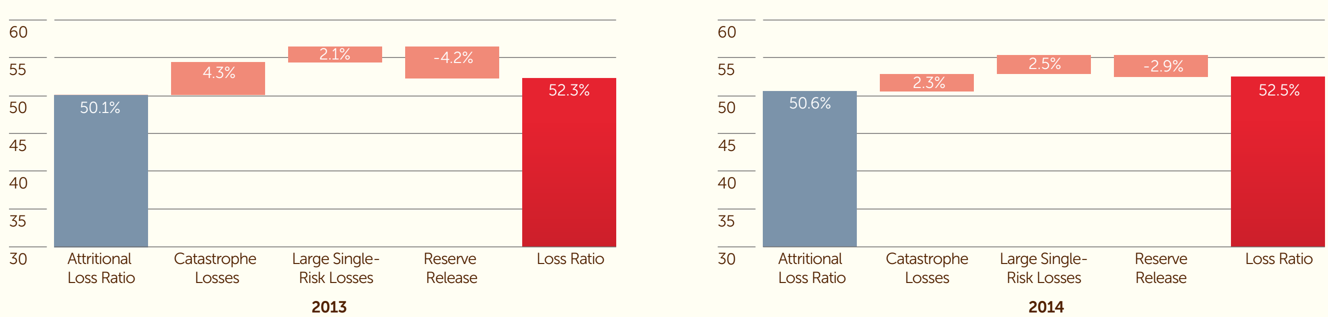
The Group's catastrophe losses for the year amounted to US$85 million net of reinsurance and reinstatement premiums (2013: US$156 million), which in the aggregate accounted for 2.3 percentage points of the Group's net loss ratio (2013: 4.3 percentage points). This total includes losses from the Iquique Earthquake which struck off the coast of Chile in April; hailstorms in Nebraska and Europe in June; flooding in India and Pakistan in September; Hurricane Odile, which caused damage in Mexico's Baja Peninsula in September; Cyclone Hudhud, which swept across eastern India and Nepal in October; and the severe Brisbane hailstorms in November.

In 2014, large single-risk losses amounted to US$107 million net of reinsurance and reinstatement premiums (2013: US$79 million), which represented 2.5 percentage points of the Group's net loss ratio (2013: 2.1 percentage points). Large single-risk losses are defined as losses arising from man-made causes in excess of US$10 million, gross of reinsurance. In 2014, the Group sustained ten large single-risk losses, including four Aviation losses: the disappearance of Malaysian Airlines Flight MH370 in March; aircraft losses caused by fighting at the Tripoli airport in July; the loss of Malaysian Airlines Flight MH17 over eastern Ukraine in July; and the loss of Air Asia Flight QZ8501 over the Java Sea in December.

The Group released US$120 million from prior-year loss reserves during 2014 (2013: US$167 million), which is equivalent to 2 per cent of opening reserves (2013: 3 per cent). The reserve release reduced the net loss ratio for 2014 by 2.9 percentage points (2013: 4.2 percentage points).

Chart 12

Components of loss ratio (%)
2013–2014



Underwriting Review

Underwriting performance by reporting segment 2013–2014 (US$m) — Table 13

	London	US	Bermuda	International	Group
2014					
Gross premiums written	**2,763**	**1,374**	**577**	**1,252**	**5,966**
Net premiums written	**1,920**	**997**	**455**	**973**	**4,345**
Net premiums earned	**1,895**	**937**	**449**	**879**	**4,160**
Underwriting contribution	**527**	**129**	**188**	**147**	**991**
Loss ratio	**47.7%**	**63.5%**	**34.2%**	**60.1%**	**52.5%**
Attritional loss ratio	**47.4%**	**58.9%**	**33.5%**	**57.4%**	**50.6%**
2013					
Gross premiums written	2,474	1,213	577	1,045	5,309
Net premiums written	1,799	916	490	847	4,052
Net premiums earned	1,832	858	486	772	3,948
Underwriting contribution	523	168	183	129	1,003
Loss ratio	48.1%	59.6%	39.1%	62.3%	52.3%
Attritional loss ratio	48.0%	57.0%	34.5%	57.5%	50.1%

Underwriting performance by product group 2013–2014 (US$m)[1] — Table 14

	Gross premiums written	Net premiums written	Net premiums earned	Underwriting contribution	Loss ratio	Rate change
2014						
Aerospace	**373**	**260**	**256**	**1**	**75%**	**(5%)**
Casualty	**1,303**	**956**	**897**	**122**	**63%**	**2%**
Energy/Marine	**932**	**642**	**638**	**179**	**49%**	**(3%)**
Property	**746**	**622**	**571**	**148**	**46%**	**(3%)**
Reinsurance	**2,076**	**1,894**	**1,766**	**561**	**46%**	**(5%)**
Specialty/War & Political Risks	**539**	**491**	**432**	**163**	**38%**	**(2%)**
2013						
Aerospace	355	271	279	84	47%	(8%)
Casualty	1,167	899	830	162	61%	6%
Energy/Marine	836	607	606	143	54%	–
Property	629	501	487	109	49%	2%
Reinsurance	1,850	1,630	1,594	395	53%	–
Specialty/War & Political Risk	474	426	407	178	36%	(1%)

1 Product group data excludes the effects of claims handling costs, bad debt charges and cessions to Special Purpose Syndicates and the Adverse Development Cover

Segmental performance
The underwriting performance by each of the Group's reporting segments is analysed in Table 13.

In addition to a 12 per cent increase in gross premiums written, the London hub's attritional loss ratio improved to 47.4 per cent (2013: 48.0 per cent). Net underwriting contribution increased by 1 per cent to US$527 million (2013: US$523 million).

The net underwriting contribution produced by Catlin US decreased by 23 per cent to US$129 million (2013: US$168 million). The loss ratio increased to 63.5 per cent (2013: 59.6 per cent), partly due to an increase in the attritional loss ratio to 58.9 per cent (2013: 57.0 per cent), primarily due to a number of significant individual losses.

The Bermuda hub, which primarily writes Property Treaty and Specialty Reinsurance, increased net underwriting contribution by 3 per cent to US$188 million (2013: US$183 million). Catlin Bermuda benefited from better catastrophe loss experience, coupled with good performance in all business classes.

Net underwriting contribution from the International segment increased by 14 per cent to US$147 million (2013: US$129 million). This was largely due to a reduction in aggregate catastrophe losses, a slight improvement in the attritional loss ratio to 57.4 per cent (2013: 57.5 per cent) and favourable development of prior year losses.

Product groups

Catlin's six product groups underwrite most classes of commercial specialty insurance and reinsurance. The underwriting performance for each product group is shown in Table 14. The gross premiums written by the major categories in each product group are shown in Chart 15.

Aerospace gross premiums written grew by 5 per cent in 2014, largely due to price increases on Airline business during the second half of the year in the aftermath of the series of significant market losses. Not surprisingly, insurance claims arising from these large single-risk losses reduced net underwriting contribution to US$1 million (2013: US$84 million).

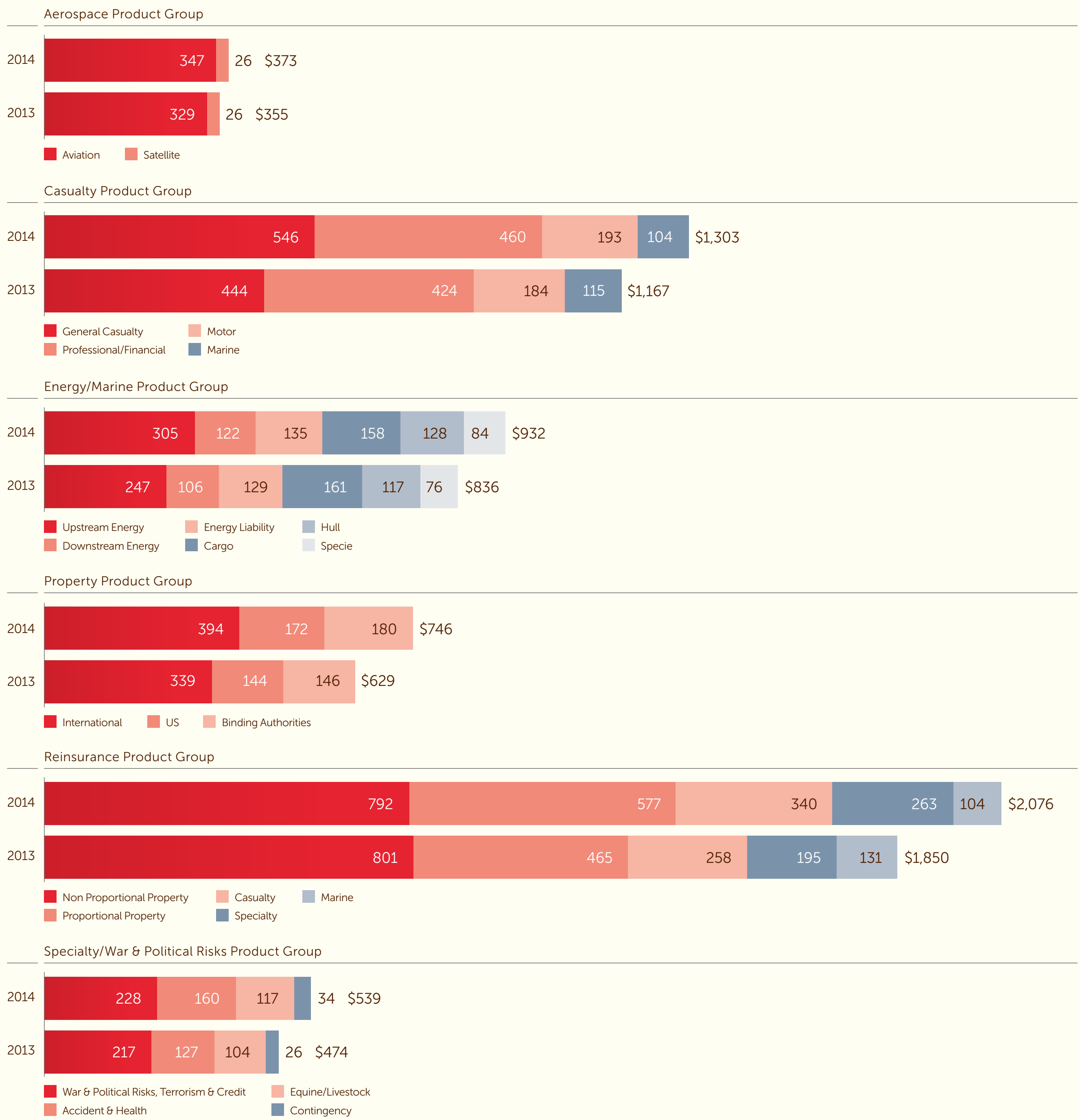
Gross premiums written for the Casualty product group increased by 12 per cent as a result of continued development of Casualty business in the US and International hubs. The net loss ratio for the Casualty product group increased by 2 per cent, largely due to a US barge collision that resulted in a large single risk loss sustained by the London hub. This loss contributed to the reduction in Casualty net underwriting contribution to US$122 million (2013: US$162 million).

Volume for the Group's Energy/Marine portfolio grew by 11 per cent in 2014, driven by growth in Energy underwriting across all hubs, especially in the London and US hubs. The portfolio produced a 25 per cent increase in net underwriting contribution due to favourable reserve development and improved catastrophe and large single-risk loss experience.

The Property product group's gross premium volume increased by 19 per cent, driven largely by new and existing Binding Authority business written in the London hub. The Property loss ratio improved by 3 percentage points, largely due to decreased catastrophe loss experience, which resulted in a 36 per cent increase in net underwriting contribution to US$148 million (2013: US$109 million).

Chart 15

Gross written premiums by product group 2013–2014 (US$m)

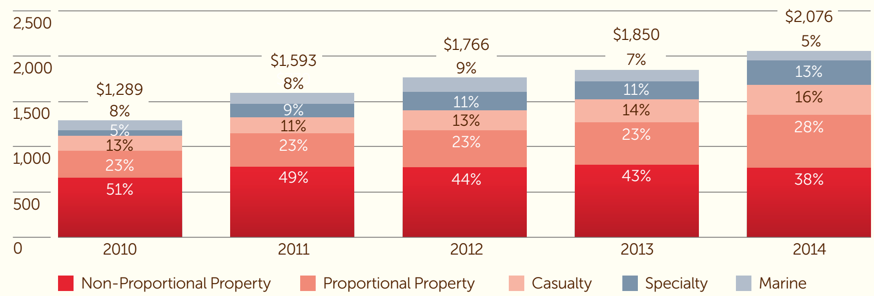


Underwriting Review

Gross Reinsurance premiums written increased by 12 per cent. Major contributors to the growth were Property Treaty Specialty lines, volume for which increased by 61 per cent in Europe, 57 per cent in Bermuda, 29 per cent in Asia-Pacific and 9 per cent in London. Casualty Reinsurance volume increased by 55 per cent in the US hub, 24 per cent in London and 10 per cent in Europe. The Reinsurance product group's loss ratio improved by 7 percentage points largely due to decreased catastrophe loss experience, while net underwriting contribution increased by 42 per cent to US$561 million (2013: US$395 million).

Chart 16

Development of Reinsurance Product Group gross premiums written (US$m and %)
2010–2014



The Reinsurance product group is a diverse portfolio of business, including both catastrophe and non-catastrophe-exposed business. The development of the Group's reinsurance portfolio over the past five years is illustrated in Chart 16.

As Catlin significantly increased the size of its overall reinsurance portfolio during this period, it reduced the percentage of the portfolio devoted to Non-Proportional Property business, which primarily includes catastrophe business. In addition, within the Non-Proportional Property book, the percentage of business pertaining to US exposures has decreased from 73 per cent in 2009 to 50 per cent in 2014.

Gross premium volume for the Group's Specialty/War & Political Risks portfolio rose by 14 per cent, largely due to growth in Speciality lines written by the Asia-Pacific hub. The portfolio continues to perform well, producing a 38 per cent loss ratio (2013: 36 per cent).

Distribution

Catlin's distinctive distribution model is one of the key elements of the Group's strategy. The Group's six underwriting hubs, located in the world's major insurance markets, provide Catlin with the ability to underwrite a geographic- and product-diverse portfolio. Information about the Group's six underwriting hubs appears on pages 30 to 35.

More than a decade ago, Catlin began to build an international distribution network, rather than rely solely on wholesale business placed in the London market. Catlin established offices in Singapore and Kuala Lumpur in 1999, followed by the acquisition later that year of a US underwriting agency with offices in Houston and New Orleans. At the end of 2014, Catlin operated 55 offices in 25 countries worldwide. The Group established offices in Copenhagen, Dubai, Lausanne and Stockholm during the year.

The vast majority of the business that Catlin underwrites is produced by hundreds of retail and wholesale brokers worldwide, including specialty and regional brokerages. Catlin aims to establish close and long-lasting relationships with its brokers through its reputation for underwriting excellence and superior claims service. More information on Catlin's service initiatives appears on page 28.

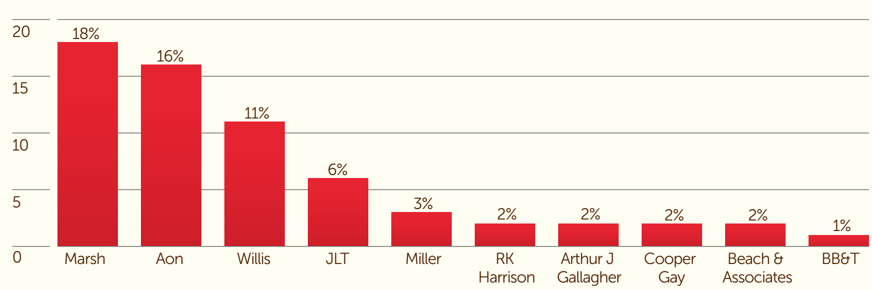
A breakdown of Catlin's ten largest brokers based on percentage of the Group's 2014 gross premiums placed by each appears in Chart 17. The ten largest brokers accounted for more than 60 per cent of 2014 gross premiums written.

Binding authorities and third-party coverholders

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

Chart 17

Percentage of gross premiums written produced by ten largest brokers in 2014 (%)



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

Catlin is considered as a leader in the Lloyd's and UK binding authority business, particularly with regard to US-based surplus lines property binding authorities. Catlin US also writes significant amounts of binding authority business.

Binding authorities require careful management. Catlin places great emphasis on the selection, management and monitoring of its coverholders, and specialist employees in offices worldwide oversee and review current and prospective coverholders. The primary goal is to ensure that all coverholders underwriting business on behalf of Catlin comply with the Group's rigorous processes and controls.

2015 renewals

Average weighted premium rates for business that renewed on 1 January 2015 decreased by 2.8 per cent (2014: 3.2 per cent decrease). Rates for catastrophe-exposed classes decreased by 4.6 per cent (2014: 6.0 per cent decrease), whilst rates for non-catastrophe business classes decreased 0.9 per cent (2014: 0.9 per cent decrease).

Rate movements at 1 January 2015 for the six product groups are shown in Chart 18.

Overall, gross premiums written as at 31 January 2015 increased by 10 per cent (31 January 2014: 4 per cent).

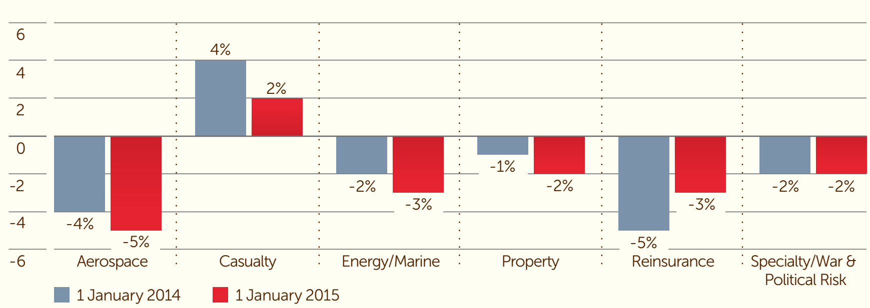
1 January is a major renewal date for Property Treaty Catastrophe Excess of Loss Reinsurance. In addition to general market pressures, this class of business was also impacted by the increase in non-traditional capacity, reduced demand from cedants and, in some cases, pressure to alter terms and conditions.

Average weighted premiums rates for Property Treaty Excess of Loss business decreased by 6.9 per cent overall on 1 January 2015 (2014: 8.8 per cent decrease), with rates for US business falling an average of 7.5 per cent (2014: 12.1 per cent decrease) and international rates decreasing by 6.6 per cent (2014: 6.4 per cent decrease).

Despite the competitive pressures, the Group retained accounts when desired, maintained signings and in some instances obtained preferred terms due to the strong relationships formed over time with ceding companies. Cedants are increasingly instructing brokers regarding which reinsurers to approach, and the Group believes that it is generally on cedants' shortlists due to its leadership position and technical capabilities.

Chart 18

Average weighted premium rate movements by product group (%)
1 January 2014–2015



We Cover Your World

Claims Excellence

"Claims service is at the heart of what we are at Catlin. We won't settle for less than great – worldwide."

Glenn Brace
Group Claims Director

Catlin's reputation for excellent claims service starts with personal relationships and trust.

Catlin has ranked on the top of Gracechurch Consulting's London claims surveys since 2007

2007

Catlin employed 206 claims professionals worldwide at 31 December 2014.

206

Catlin has been cited by brokers as providing the best claims service in the London market since 2007.

The Group believes that an insurer proves its true worth only after a claim arises. Catlin prides itself on being as responsive as possible to clients and their brokers following a claim. However, the roots of Catlin's award-winning claims service are planted even before a policy is written.

The claims process is all about relationships. Catlin's claims team strives to build solid relationships with clients and brokers before a policy is written. Claims managers work side-by-side with Catlin underwriters. The Group believes that clients and brokers want to know in advance the identity – and more importantly the quality – of the claims personnel who will work with them in the event of a loss.

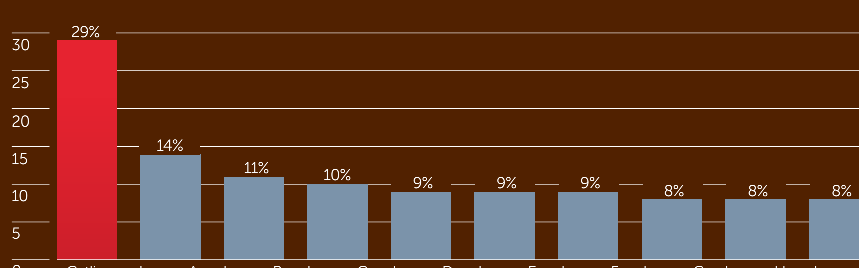
Catlin has a history of award-winning claims handling in London. Our goal is to ensure this level of claims excellence across all six underwriting hubs. In many cases, a multinational client will purchase coverage from more than one of Catlin's hubs. They expect – and deserve – world-class claims service no matter where on the globe a claim arises .

At Catlin, we know that claims service is the 'shop window' of any insurer. Our claims team is essential to our effort to attract and retain the trust of clients and brokers. We listen to their requirements, and they set the standards for the high-quality service we currently provide and, even more importantly, for our efforts to continually shape that service to meet their changing needs.

Catlin continues to rank first in London claims survey

Catlin in 2014 once again was ranked top of class by brokers responding to the Gracechurch London Claims Report. Catlin was ranked ahead of all others in most of the categories covered by the survey including recommendation; nearly twice as many brokers would recommend Catlin on the basis of claims service than any other London insurer (see page 66).

Top London insurers most recommended for claims service (%)



Source: The Gracechurch London Market Claims Report 2014.

Diversification

Six Underwriting Hubs

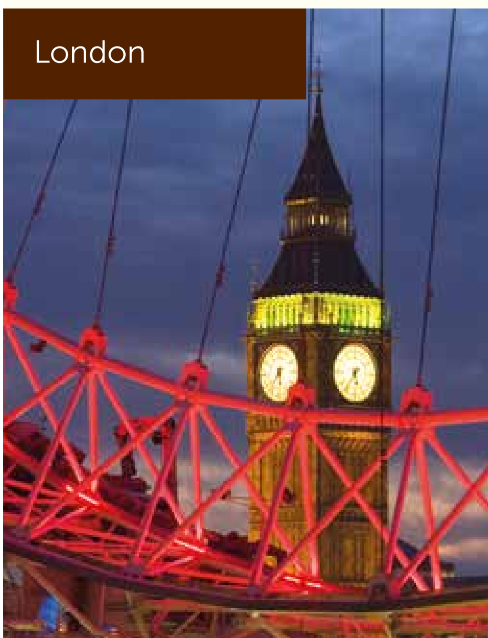
Catlin writes insurance and reinsurance worldwide through six underwriting hubs. These hubs allow Catlin to operate as a 'local insurer' around the globe.

55

Offices
Catlin operated 55 offices as at 31 December 2014.

25

Countries
Catlin offices are located in 25 countries on five continents.



Diversification
Underwriting Hubs

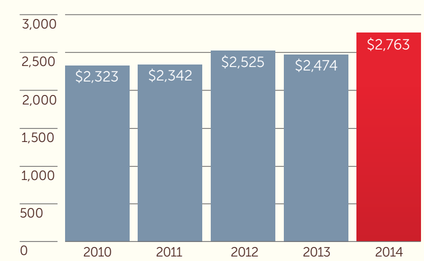
London

Catlin's largest hub thrives despite increasing competition

$2,763m Gross premiums written
12% Growth in GPW
4 Offices
983[1] Employees
412 Underwriting, Claims and Actuarial Employees

1 Includes employees performing Group functions

London gross premiums written (US$m)



Catlin's London hub, the Group's largest, performed impressively during 2014 despite the challenges posed by an increasingly competitive marketplace and the continued growth in alternative sources of capital for reinsurance business.

Underwriting performance continued to be strong, despite the increasing competitive pressures. The hub produced a record net underwriting contribution of US$527 million (2013: US$523 million). The attritional loss ratio decreased to 47.4 per cent (2013: 48.0 per cent), demonstrating continued underwriting discipline and superior risk selection. The 2014 loss ratio was 47.7 per cent (2013: 48.1 per cent), aided by relatively benign catastrophe loss experience and prior year reserve releases.

Gross premiums written by the London hub increased by 12 per cent to a record US$2.76 billion (2013: US$2.47 billion. The increase in volume was 9 per cent if measured on a constant currency basis. The growth in gross premiums written was produced across the hub's portfolio, which includes nearly all classes of commercial specialty insurance and reinsurance. Drivers of the growth included an increase in multiyear policies for certain reinsurance lines and the acquisition of a significant binder of UK regional Property, Casualty and Motor business. In addition, Angel Underwriting, a specialist regional underwriting operation acquired by Catlin in 2010, successfully introduced a Terrorism insurance product which has been well-received by the UK SME sector.

The hub's performance also reflects strategic efforts to improve the level of service Catlin provides in the London market, as well as its leadership position in a marketplace that is increasingly focusing on top-tier carriers. The Catlin Syndicate has been the largest syndicate in the Lloyd's market since 2007. Catlin's London operations lead more than 50 per cent of the business it underwrites by premium volume and more than 40 per cent by policy count. In a market where brokers are seeking relationships with the strongest players, Catlin has become even more relevant.

This leadership position was demonstrated by the results of the 2014 Gracechurch London Insurers Report, an independent study of 450 London-based brokers (see page 65). Catlin was the insurer/reinsurer most used by the surveyed brokers by a large margin. In addition, these brokers ranked Catlin first among all other London underwriters in the following categories:

- customer service;
- claims service;
- outstanding underwriting talent;
- integrity and trustworthiness;
- knowledge and trust in brand;
- range of products and services;
- innovation; and
- financial strength.

In the only category – global strength – in which it did not finish first, Catlin ranked second.

US

Gross premiums increase by 13 percent during 2014

$1,374m Gross premiums written

13% Growth in GPW

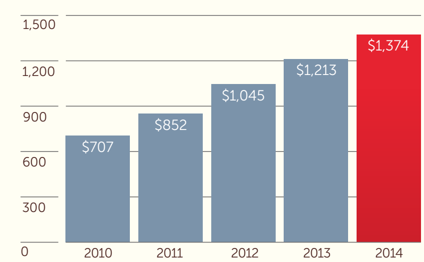
18 Offices

464[1] Employees

321 Underwriting, Claims and Actuarial Employees

1 Excludes employees performing Group functions

US gross premiums written (US$m)



Catlin continued to expand its US-based operations during 2014, both in terms of gross premiums written and product offerings.

Gross premiums written by Catlin US increased by 13 per cent to US$1.37 billion (2013: US$1.21 billion). Growth was reported across most of Catlin US's business groups despite increasing competition in the US marketplace and unusual events such as the 'polar vortex', which greatly slowed construction spending at the start of the year. Over the past five years, gross premiums written by Catlin offices in the United States and Latin American have risen by more than 94 per cent.

Gross premiums written by Catlin US's insurance operations increased by 16 per cent. A portion of this growth is attributable to Catlin's increasing reputation in the US market as a quality-driven specialty insurance underwriter which has been building underwriting teams and product offerings over the past several years. Catlin US considers itself a market leader in insurance lines including Construction, Professional Lines, and General Aviation (through W. Brown & Associates).

While no new offices were established in 2014, the insurance operations substantially increased product offerings in several offices. For example, the Chicago office was expanded to include a new Healthcare Liability team, complementing an existing team in Los Angeles, and a Casualty E&S team to supplement the core underwriting teams for this business in Atlanta, Cleveland and Hartford. New products were also introduced by the Philadelphia and New York offices.

Likewise, the 8 per cent increase in gross premiums written by Catlin US's reinsurance operations was partly attributable to the addition of Casualty Facultative and Accident & Health specialties for Latin American clients, underwritten from the Miami office. The hub added a Professional Liability specialisation to its Casualty Treaty portfolio.

Catlin US has initiated a new D&O insurance product for private companies in co-operation with leading underwriting manager Victor O. Schinnerer & Company. Catlin sees significant opportunities for this product as only about 30 per cent of private companies purchase management liability protection.

The hub continues to emphasise the service it provides to clients and brokers. Catlin US was again in 2014 rated as the top insurer for claims service by members of the American Council of Engineering Companies. It was the third time in four years that Catlin had been ranked first in this survey.

Catlin US was also 'Great Rated' by an independent survey conducted by the Great Places to Work Institute. The survey found that nine out of ten employees rated Catlin US as a great place to work.

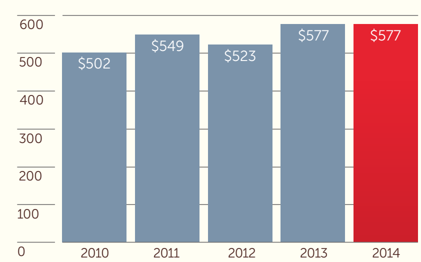
The hub's loss ratio increased to 63.5 per cent (2013: 59.6 per cent), primarily due to a number of significant individual attritional losses and modest movements in prior year reserve levels. Net underwriting contribution produced decreased by 23 per cent to US$129 million (2013: US$168 million).

Diversification
Underwriting Hubs

Bermuda
Strong performance continues despite market competition

$577m	Gross premiums written
–	Growth in GPW
1	Offices
68	Employees
30	Underwriting, Claims and Actuarial Employees

Bermuda gross premiums written (US$m)



Catlin Bermuda recorded a strong all-round performance during 2014 despite difficult market conditions.

Net underwriting contribution increased by 3 per cent to US$188 million (2013: $183 million), while the loss ratio decreased to 34.2 per cent (2013: 39.1 per cent). The key driver of profitability was the hub's worldwide property excess of loss treaty account in a year where catastrophic loss activity was relatively benign. However, all classes of business within Catlin Bermuda's portfolio made a positive contribution to the hub's underwriting result.

Gross premiums written of US$577 million in 2014 were identical to the previous year. However, this was a creditable performance amid market dynamics of rate erosion and increasing capacity for the classes of reinsurance which Catlin Bermuda writes. Indeed, the hub used its leadership position in the Bermuda marketplace to develop and grow relationships with an increasingly diverse group of clients, particularly with those key clients with which Catlin Bermuda expects to trade throughout all stages of the underwriting cycle.

Throughout 2014 Catlin Bermuda underwriters maintained strong underwriting discipline as competition from both traditional and alternative sources increased, closely monitoring risk selection and price adequacy.

The hub specialises in Treaty reinsurance, including Property Treaty, Casualty Treaty (Professional and General Liability) and Specialty classes such as Marine, Agricultural and Structured Risk. Catlin Bermuda is an established lead and quoting market in all reinsurance classes it writes.

In insurance, Catlin Bermuda writes an increasingly important and consistently profitable book of Political Risk and Credit insurance.

While the overall portfolio is mature, Catlin Bermuda continues to expand its offering of bespoke products to meet client needs. Specialist actuaries embedded within the underwriting teams allow Catlin Bermuda to tailor innovative aggregate, stop-loss and other frequency-based products to provide cost-effective protection against specific loss scenarios. These structured products are a market-acknowledged differentiator.

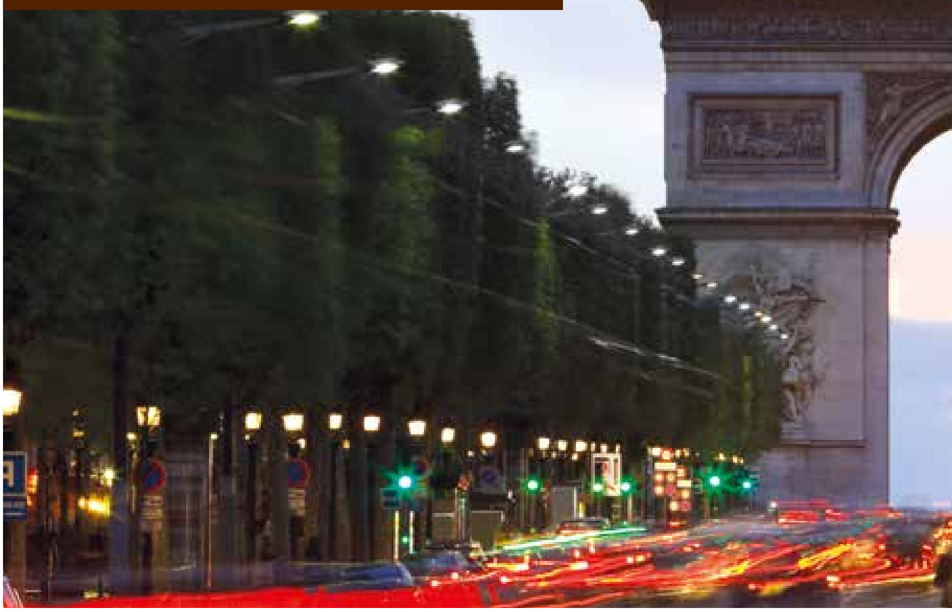
Beyond traditional reinsurance pricing, Catlin Bermuda works closely with selected clients to acquire granular levels of data that allow for enhanced analysis. Deepening the relationship with each client, this service often leads to the following positive outcomes:

- the refinement of primary insurance rates;
- the improvement of existing and/or the creation of new insurance products;
- the improvement of reinsurance coverage by recalculating loss curves and applying Structured Risk solutions.

This close collaboration aligns the interests existing between a client and Catlin Bermuda.

Europe

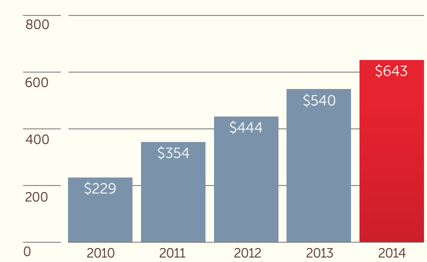
Tenth anniversary rewarding for European operations



$643 Gross premiums written
19% Growth in GPW
18 Offices
276[1] Employees
157 Underwriting, Claims and Actuarial Employees

1 Excludes employees working in shared services centre in Wroclaw, Poland

Europe gross premiums written (US$m)



2014 marked the tenth anniversary of the establishment of Catlin's Continental European operations, a year during which the hub continued to grow in terms of premium volume and market leadership.

The European underwriting hub, the largest of the three hubs that form Catlin's International reporting segment, is made up of two operations: Catlin Europe, which underwrites direct insurance business and is headquartered in Cologne, and Catlin Re Switzerland, based in Zurich, which writes reinsurance business.

Combined, gross premiums written by Catlin Europe and Catlin Re Switzerland increased by 19 per cent in 2014 to US$643 million (2013: US$540 million). Underwriting contribution, although not publicly disclosed, remained stable despite catastrophe losses arising from the June 2014 European hailstorms.

Catlin Europe continued to extend its network of offices during 2014, opening operations in Copenhagen, Stockholm and Lausanne. In addition, a major development was a partnership with Globex International, an international insurance and risk management network.

The Globex partnership allows Catlin Europe to service multinational requirements of European clients in countries in which the Group is not licenced to write business.

In addition, a European terrorism insurance facility, managed by Catlin Europe and led by Catlin and other Lloyd's underwriters, was established in December, with the first policies incepting in 2015.

Despite these new initiatives, Catlin Europe's growth during 2014 was mainly organic, as the hub increased its profile with core clients and brokers and benefited from enhanced sales/distribution strategies.

Meanwhile, Catlin Re Switzerland is now regarded as a leading global Credit, Surety and Political Risk reinsurer and has substantially increased its market position in Property, Casualty and Specialty reinsurance products offered primarily for European cedants.

On the back of increased market presence and an expanded underwriting team, gross premiums written increased significantly. The increase was attributable to both new contracts written as well as expanded shares of existing business. Catlin Re Switzerland's portfolio continued to diversify, both geographically and by product type, achieving adequate profitability despite stepped-up market competition. A major success during 2014 was the expansion of the European Casualty portfolio through a consistent and clearly articulated risk appetite, close interaction with clients and swift response times.

Part of the company's success has stemmed from the recruitment of senior underwriters whose expertise and professionalism distinguishes Catlin Re Switzerland from many of its competitors. Generally, the wealth of expertise has led to underwriters being increasingly invited to share their views at industry events and to share market knowledge with clients' management teams.

Diversification
Underwriting Hubs

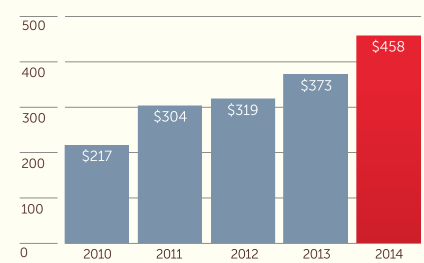
Asia-Pacific

Singapore-based operation enjoys most successful year

$458m	Gross premiums written
23%	Growth in GPW
10	Offices
208[1]	Employees
130	Underwriting, Claims and Actuarial Employees

1 Excludes employees working in Kuala Lumpur shared services centre; 390 employees in total

Asia-Pacific gross premiums written
(US$m)



2014 was the most successful year for Catlin's Asia-Pacific underwriting hub since the first Catlin offices in Asia were established in 1999.

Gross premiums written increased by 23 per cent to US$458 million (2013: US$373 million). More importantly, the hub made an important contribution to the International segment's underwriting profitability, despite several catastrophe and large single-risk aviation losses impacting the region. The hub met or exceeded all of its key goals, despite a softening price environment and the significant level of large loss activity.

The hub's growth in 2014 was largely the result of prior year investments in underwriting teams and the development of the Catlin service model in the Asia-Pacific region. An internal survey of brokers undertaken during 2014 revealed that Catlin's operating model, including its emphasis on underwriting and claims service excellence, was recognised as a factor distinguishing Catlin from the competition. Brokers particularly cited the ease of doing business with Catlin, the fact that underwriting and claims staff are locally empowered to make decisions, and the overall quality of Catlin Asia-Pacific employees.

Two new operations in the Asia-Pacific hub began underwriting business during 2014. The Singapore Branch of Catlin Insurance Company Ltd. began operations in January following regulatory approval in December 2013. The formation of a locally licensed insurer in Singapore aligns with the Catlin strategy of offering clients and brokers a choice of financial security, in this case whether policies are issued by the Singapore Branch or by the Catlin Syndicate at Lloyd's. The Singapore Branch received significant support from clients and brokers during its first year of operations.

In addition, Catlin Middle East, based in Dubai, commenced operations in May. Catlin Middle East, part of the Asia-Pacific hub, operates as a coverholder for the Catlin Syndicate at Lloyd's to write various types of reinsurance business on behalf of Syndicate 2003 for clients in the Gulf Cooperation Council ('GCC') countries, Africa and parts of South Asia

While the office in Dubai was the only new office established by the hub during 2014, a major new initiative was undertaken when Catlin Asia-Pacific became the exclusive capacity supplier to a regional leader in the Accident & Health insurance sector. Catlin won the tender despite strong competition from both regional and international players.

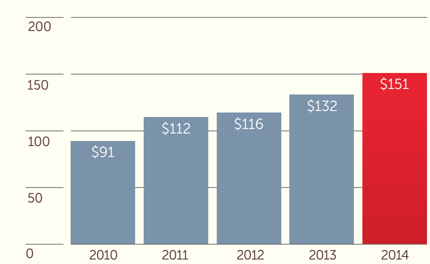
The Asia-Pacific hub is the home to Catlin's shared services centre in Kuala Lumpur, an important part of the Group's strategic transformation programme (see page 48). This shared services centre now undertakes more than 8,000 monthly tasks on behalf of the hub that would have otherwise been undertaken by Catlin underwriters and other staff in more expensive locations, who are better employed to produce and underwrite business.

Canada

Performance improved as portfolio is rebalanced

$151m Gross premiums written
14% Growth in GPW
4 Offices
70 Employees
56 Underwriting, Claims and Actuarial Employees

Canada gross premiums written (US$m)



Catlin Canada's gross premiums written increased by 14 per cent during 2014 to US$151 million (2013: US$132 million).

However, growth on a constant currency basis amounted to nearly 21 per cent once the decrease in the value of the Canadian dollar is taken into account. Performance in 2014 also benefited from a lack of large loss events, following a year which saw the most costly catastrophe in the nation's history.

The hub's growth during 2014 came from existing products rather than new initiatives, although new hires made in late 2013 and early 2014 contributed significantly to performance. The largest growth areas were in Property and Casualty insurance, including Professional Lines, although significant growth was also reported in the Energy and Marine accounts. The downturn in Canadian construction activity limited growth in Construction insurance.

Catlin Canada continued during 2014 to rebalance its portfolio. Gross premiums written increased across all classes of business except for Aviation. In 2008, Aviation insurance represented about two-thirds of the hub's portfolio; it now represents only about 20 per cent, reducing Catlin Canada's exposure to a class of business in which conditions have been extremely competitive. However, while volume decreased, Catlin continues to maintain a leading position in the Canadian Aviation insurance market, and the hub strengthened both its Aviation underwriting and claims staffs during 2014.

Market conditions in Canada remained challenging for insurers in 2014, despite the fact that the previous year saw the devastating floods in Calgary – the most costly catastrophe event in Canadian history – as well as floods in Toronto and a major industrial explosion in Regina.

The book of reinsurance business underwritten by Catlin Canada was transferred to the London underwriting hub. While most of this business renewed on 1 January 2015, significant work was done during 2014 to smooth the transition. The business was successfully retained upon renewal, with the added benefit of reduced expenses through the consolidation of the Canadian business with the London hub's reinsurance portfolio.

The Toronto office, the largest in the hub, moved locations in 2014. The new facility includes space that will be utilised for increased interaction with brokers and clients, including a new series of product seminars that will highlight Catlin's expertise as well as provide brokers with continuing education credits.

Capital

Summary

- Catlin takes a conservative view of available capital and required capital.
- Catlin's operating structure is designed to encourage capital efficiency.
- Available capital amounted to US$3.37 billion at 31 December 2014.
- Third-party capital arrangements increase the flexibility of Catlin's capital structure.

The preservation and efficient use of capital is a major strategic focus for Catlin. The Group actively manages capital through market cycles to maintain a level of available capital consistent with the Group's risk appetite and business plan. Catlin takes a conservative view of both available capital and required capital based on a holistic view of risk and capital management that encompasses a Group-wide consideration of all risks.

Catlin controls downside risk to capital created by its diversified portfolio of underwriting and financial markets risk to ensure that the Group and all of its insurance carriers can benefit from the improved pricing environment in years following significant market events without necessarily raising additional capital. The delivery of this strategy is supported by a robust risk and control framework.

Catlin's risk appetite is a function of expected profit and available capital. In setting risk appetite, it is recognised that there will be a trade-off between expected profit, loss experience and volatility, and the time horizon under consideration across all risk categories (underwriting risk, reserving risk, financial markets risk, credit risk and operational risk).

One of Catlin's key aims is consistency and transparency of risk management and controls across the entire Group, its insurance carriers and all risk categories. Catlin controls its exposure via:

- a diversified portfolio of underwriting and financial markets risks;
- controlling aggregation;
- underwriting controls; and
- risk mitigation of key underwriting and financial markets risks.

Catlin's rated underwriting entities have been assigned financial strength ratings of 'A' (Excellent) by A.M. Best and 'A' (Strong) by Standard & Poor's. These superior ratings reflect the agencies' confidence in the Group's risk management framework and level of capital. Standard & Poor's opinion of Catlin's Enterprise Risk Management programme is 'Very Strong'.

Shareholders' equity forms the backbone of the Group's capitalisation, complemented by the non-cumulative perpetual preferred shares issued by Catlin Bermuda (Catlin Insurance Company Ltd.). The preferred shares are a capital instrument which is eligible as regulatory capital for Catlin Bermuda. In addition, the Group has put in place several strategic third-party capital arrangements. Catlin's centrally managed outwards reinsurance/risk transfer programme reduces volatility and further enhances overall capital efficiency.

Efficient and flexible capital structure

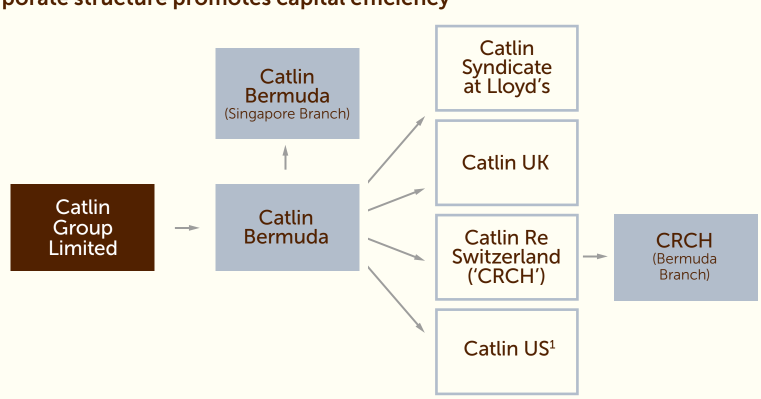
The Group has developed a structure designed for capital efficiency, including flexible allocation of available capital. Capital is managed and allocated on a Group basis.

Catlin Bermuda, in addition to writing third-party business, serves as the parent company of Catlin's other regulated insurance entities. The Group operates through only a small number of insurance carriers: as many as necessary, as few as possible. Financial resources are pooled at the parent level for the benefit of the entire Group. This allows Catlin to allocate capital and liquidity quickly to where it is best used and to provide funds to where they are needed.

This simple structure is illustrated in Chart 1.

Chart 1

Corporate structure promotes capital efficiency



1 Catlin US includes Catlin Insurance Company Inc., Catlin Specialty Insurance Company Inc. and Catlin Indemnity Company

Besides Catlin Bermuda, Catlin owns and operates the Catlin Syndicate (Syndicate 2003) and a separate life syndicate (Syndicate 3002) at Lloyd's, which underwrite coverage on a global basis by leveraging Lloyd's international licences. Other Catlin insurance carriers – Catlin Re Switzerland, Catlin UK, Catlin Bermuda and three insurers operated by Catlin US – fill geographic and policyholder needs. Catlin Re Switzerland also underwrites through its branch in Bermuda, and Catlin Bermuda also underwrites through a Singapore Branch. Catlin Underwriting Agencies Limited, which manages Syndicates 2003 and 3002, also manages Special Purpose Syndicates on behalf of certain corporate and traditional Lloyd's Names.

Sophisticated capital modelling techniques are used to assess and manage capital throughout the Group. Catlin's own view of capital requirements is complemented by regulatory and rating agency perspectives. Ultimately, capital is deployed in regions and classes of business where growth and value creation can be delivered to our shareholders over the long term. The Group also supplements its own capital with third-party capital as market circumstances change. This adds flexibility to the Group's capital structure.

Catlin continually explores various sources of cost-efficient capital.

Available capital

Catlin defines available capital as its net tangible assets and the perpetual preferred shares issued by Catlin Bermuda. The Group does not consider intangible assets, subordinated debt and existing banking facilities when determining its risk appetite. Whilst there are many methods that can be used to calculate available capital, the Group believes that its method is conservative and the most appropriate from an investor's point of view.

The Group's capital position at 31 December 2014 and 2013 is analysed in Table 2.

The Group strives generally to maintain a buffer of available capital that is between 10 per cent and 20 per cent of required economic capital. There may, however, be periods when the capital buffer falls outside this range over a short-term period as the Group manages uncertainty and explores opportunities.

Management's estimate of required economic capital is based on a portfolio view of risk, rather than singular events. It takes into account all types of risks – underwriting risk, reserving risk, financial markets risk, credit risk and operational risk – that are faced by the Group. The required economic capital is set at a level that would allow Catlin to continue to trade forward following a 1-in-100-year 'portfolio' event (which could include a combination of all of the types of risks listed above) and to benefit from the improved pricing environment in subsequent years following extreme market losses, without necessarily raising capital.

Catlin utilises a sophisticated bespoke internal capital model to analyse capital requirements and to maximise capital efficiency. The model, which has been under continuous development by the Group since 2003, provides a stochastic analysis of all material risks embedded in the business. It allows the Group to model the risk profile of the Group and efficiencies of different underwriting, investment and outwards reinsurance strategies. The model also helps the Group manage capital requirements for its insurance carriers and fulfil regulatory requirements.

Capital position (US$m) — Table 2

	2014	2013
Paid-up capital (net of intangibles)	**2,775**	2,565
Catlin Bermuda preferred shares	**590**	590
Available capital	**3,365**	3,155
Required economic capital[1]	**2,725**	2,612
Capital buffer to required economic capital	**640**	543
Capital buffer as % of required economic capital	**23%**	21%
Additional resources not included in calculation of available capital		
Subordinated debt	**90**	93
Undrawn bank facilities	**295**	302

1 Required economic capital represents management's view of the capital required to deliver the Group's strategy, based on the Group's internal capital model

Capital

Third-party capital

The Group has put in place a number of strategic third-party capital arrangements. Catlin's flexible capital structure has allowed it to easily introduce these arrangements, which the Group believes benefit both Catlin and the counterparties.

Special Purpose Syndicates providing whole-account quota-share reinsurance to Catlin Syndicate 2003 were first established at Lloyd's during 2012. Since then the programme has continued to expand. Also in 2014, the Group established a Portfolio Participation Vehicle ('PPV') that provides whole-account reinsurance protection for all of the Group's non-Syndicate business. This arrangement has also been expanded for 2015. A variety of third-party capital providers have subscribed to the PPV.

Combined, sponsors of the Special Purpose Syndicates and the PPV have put up nearly US$350 million in capital for 2015.

The Group recognised US$66 million in commissions and fees in 2014 relating to the Special Purpose Syndicates and the Portfolio Participation Vehicle (2013: US$28 million).

The Group has in place an Adverse Development Cover that provides protection against significant deterioration, under certain circumstances and subject to limits, of loss reserves relating to the Group's 2012 and prior underwriting years. The purchase of this coverage does not represent a change in the Group's reserving philosophy, but rather is intended to improve the efficiency of the Group's capital base.

The third-party capital arrangements benefit the Group in several ways, including by:

- increasing book value through fees for management expenses and commissions for profitable underwriting;
- providing the Group with the flexibility to respond quickly to changing market circumstances, such as advantageous market conditions following a significant catastrophe event;
- reducing total volatility of earnings for first-party capital relative to business volumes; and
- more efficient capital provision, particularly through the Adverse Development Cover.

These arrangements increase the flexibility of the capital structure and enhance the Group's strategic options for greater use when market circumstances warrant.

The premiums ceded to third-party capital providers are included in reinsurance premiums ceded in the Group's Consolidated Statements of Operations.

Catlin continues to search proactively for lower-cost sources of capital, including other potential third-party capital structures.

Regulatory requirements

Catlin is committed to full compliance with Group and local regulatory requirements in all relevant jurisdictions in which it operates and has implemented Group-wide 'Own Risk and Solvency Assessments' ('ORSA').

Reinsurance and risk transfer

The goals of Catlin's risk transfer programme are to reduce volatility with a focus on capital preservation and flexibility following major events or significant market corrections. The programme is viewed as a capital management tool and is designed and executed centrally in order to maximise effectiveness.

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 for claims.

The key elements of the risk transfer programme include:

- risk transfer to capital markets and/or collateralised counterparties to diversify and improve counterparty financial security particularly for infrequent catastrophe or extreme loss scenarios;
- non-proportional event and aggregate protection to reduce the impact of large and/or more frequent significant events;
- proportional and facultative protection to enhance the Group's gross underwriting capacity and cycle management; and
- consideration of the quality of security and willingness to pay.

Table 3

Examples of catastrophe threat scenarios
Outcomes derived as at 1 October 2014 on a single loss basis
(i.e. net losses for individual threat scenarios are not additive)

US$m	Florida (Miami) Windstorm	California Earthquake	Gulf of Mexico Windstorm	European Windstorm	Japanese Earthquake
Estimated industry loss	125,000	78,000	112,000	31,000	51,000
Catlin Group					
Gross loss	960	989	1,298	737	609
Reinsurance effect	(443)	(634)	(985)	(417)	(339)
Modelled net loss	517	355	313	320	270
Modelled net loss as a percentage of available capital[1]	16%	11%	9%	10%	8%

1 Available capital amounted to US$3.3 billion at 30 June 2014

As part of its risk transfer programme, the Group has established a Catastrophe Aggregate Programme, which is structured to protect the Group against an aggregation of significant catastrophe losses (with a focus on natural perils) from major zones. Once the aggregate of losses to the Group reaches a certain level, a significant portion of further losses are recoverable from the programme up to certain limits. The Catastrophe Aggregate Programme was first triggered in 2011 following the unprecedented series of major catastrophe events, although similar structures have been in place for prior years. The 2014 programme is not expected to be triggered from events during the year.

The core risk transfer programme structure is reviewed at least annually and could change materially in future years. The actual structure will depend on market availability and a consideration of the cost and benefits afforded by the programme. The overall 2015 programme provides similar levels of protection relative to gross exposures compared with recent years.

The Group evaluates the financial condition of its reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. All reinsurers participating in the current programme have financial strength ratings of at least ‘A’ from Standard and Poor’s or ‘A-’ from A.M. Best at the time of placement, or provide appropriate collateral.

The Group actively considers and monitors the insurance-linked securities market and may sponsor such transactions when appropriate. The Group believes that its risk transfer philosophy maximises book value growth over time by retaining expected earnings variability and transferring extreme volatility.

Aggregate management

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

Accumulation of risk is monitored and controlled against risk appetite limits in compliance with policy and procedures approved by the Group Board of Directors. A selection of modelled outcomes for the Group’s most significant catastrophe threat scenarios is detailed in Table 3. The modelled outcomes represent the Group’s modelled net loss after allowing for all reinsurances and are shown in the table. This output is used to monitor the Group’s risk appetite, as guidelines in pricing inwards business, to influence outwards reinsurance purchasing strategy and as a key consideration in the assessment of required capital.

Limitations

The modelled outcomes in the table are mean losses from a range of potential outcomes. Significant variance around the mean is possible. Catlin understands that modelling is an inexact science and undertakes mitigating actions against this model uncertainty. Modelling is used to inform and complement the views of both underwriting and actuarial teams.

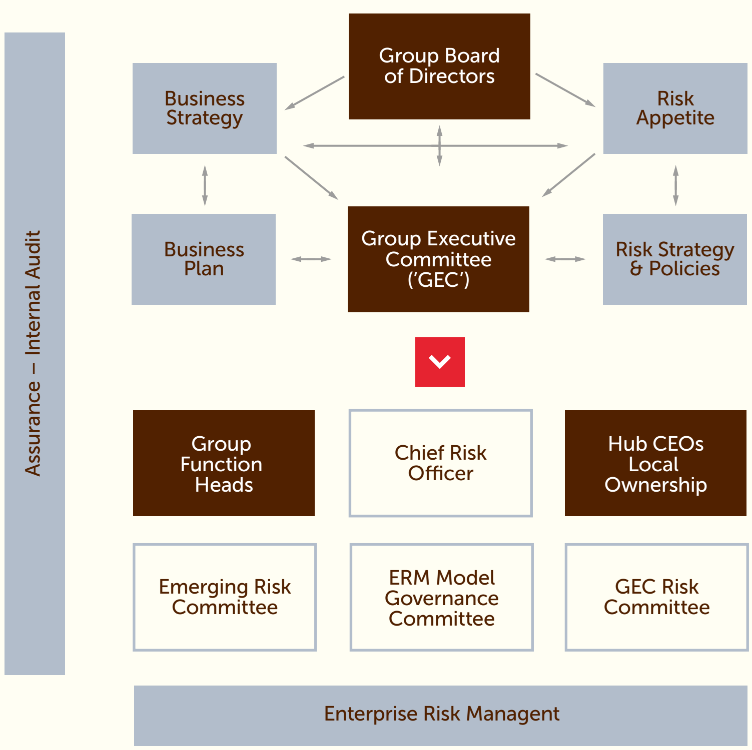
Risk Management

Summary

- Catlin has established a comprehensive risk management and control framework.
- Insurance risk represents the majority of the Group's capital drivers.

Chart 1

Risk governance, roles and responsibilities
Good risk management is the responsibility of all employees within the Group. The governance structure encourages open dialogue and challenge on risk matters throughout the Group to ensure the delivery of the objectives of the risk policy of the Catlin Group. A summary of risk governance, roles and responsibilities is shown in Chart 1.



Note: During 2013 the Group Risk and Capital Committee was renamed and merged with the existing Group Model Governance Committee

Catlin's robust risk management and control framework is designed to address all of the Group's material risks. The Group framework is supported by risk and control frameworks developed for each of the underwriting hubs.

Catlin's strategy for managing insurance and financial markets risks includes:

- analysing and assessing insurance risks with high-quality underwriting, actuarial and claims expertise;
- analysing and selecting high-quality investment options with experienced asset managers;
- diversifying insurance and investment risks through active portfolio management and risk modelling;
- transferring risk through cost-effective risk transfer programmes;
- retaining risk within an approved risk appetite with appropriate levels of capital; and
- continuously monitoring for emerging changes affecting risk.

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

- identifying and analysing risk through a disciplined risk assessment process;
- mitigating or avoiding risks that do not fit business objectives; and
- training and development of staff regarding Catlin's risk management culture.

Group Board of Directors
The Group Board of Directors is responsible for the overall internal control framework for the Group, including setting and approving business strategy and direction for the Group and its underwriting hubs, as well as determining risk appetite, establishing risk policies and monitoring the Group capital requirements.

Group Executive Committee
The Group Executive Committee ('GEC') is charged by the Group Board of Directors with overseeing the risk management programme, including Enterprise Risk Management. The GEC approves the use of the internal capital model to calculate the Group's economic and regulatory capital requirements and sets the strategic direction of the model so that it is aligned with the risk profile and risk culture of the Group.

Hub Chief Executive Officers
Responsibility for risk management is spread throughout the organisation. The chief executive officers of the Group's underwriting hubs are responsible for developing and executing a strategy and business plan in line with the Group's. They are also responsible for identifying and managing the risks to their hubs' objectives.

Group function heads
The heads of the Group's various functions are responsible for establishing Group-wide controls within their respective areas.

ERM Model Governance Committee
The committee meets regularly and is responsible for enhancing the GEC's risk-based strategic decision making by:

- reviewing and monitoring key risk indicators against risk appetite;
- overseeing governance of the internal risk and capital model;
- considering short- and long-term capital requirements and assumptions for GEC consideration;
- monitoring economic, regulatory and rating agency capital levels together with changes in capital positions against targets; and
- monitoring the asset/liability positions and liquidity profile of the Group and its insurance carriers.

Emerging Risk Committee
The Emerging Risk Committee is responsible for considering the potential impact of future issues that might emerge from changes to the external environment. The committee meets regularly and reports to the ERM Model Governance Committee.

Group Chief Risk Officer
The Group Chief Risk Officer has broad responsibility for ensuring compliance with the Group's risk policy through the execution of the Enterprise Risk Management ('ERM') programme.

Enterprise Risk Management
The objective of Catlin's ERM programme, led by the Group Chief Risk Officer, is to enhance decision-making across the business through an understanding of risk and a consistent, embedded Group-wide Risk and Capital Management Framework. This is intended to deliver a range of benefits that include:

- a solid understanding of all risks and controls through an effective risk assessment process and their relationship to capital requirements;
- more informed strategic and operational decision-making for enhanced profits and improved efficiency of capital using sophisticated capital modelling techniques;
- selection of the most appropriate strategy from the range of available business decisions with direct reference to the Group's risk appetite;
- strong internal and external risk management communication;
- a consistent risk management programme throughout the Group to support the reduction of uncertainty and meet Catlin's desired risk profile as the business continues to grow and evolve;
- promoting a transparent risk culture of accountability; and
- meeting existing and evolving regulatory risk and capital requirements.

The ERM team structure is made up of experienced risk professionals who assist the Group Chief Risk Officer by providing expert guidance to support the business management of risk and providing timely and accurate management information, including Group-wide Own Risk and Solvency Assessments ('ORSA') covering the overall risk profile and the key risks of the Group.

Standard & Poor's has assessed Catlin's Enterprise Risk Management programme as 'Very Strong'.

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

Catlin analyses its key risks into the following categories:

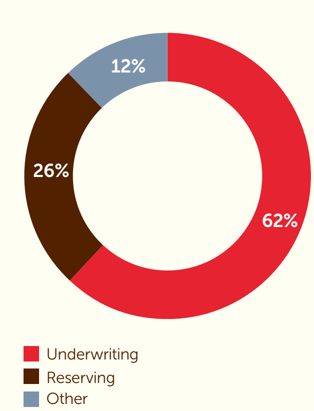
Insurance risk
- Underwriting risk for new business in a given planning period;
- Underwriting risk for business already written but not yet earned; and
- Reserving risk.

Other risk categories
- Financial markets risk;
- Liquidity risk;
- Currency risk;
- Credit risk; and
- Operational risk.

The key capital drivers by risk category are shown in Chart 2.

Chart 2

Key capital drivers



Risk Management

Insurance risk represents the majority of the Group's capital drivers.

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

The Underwriting Control Framework is designed to enable underwriters to operate within their markets and classes of business with sufficient freedom to effectively conduct business with local brokers and clients. Catlin believes that its underwriting teams have a high level of technical expertise supported by strong underwriting disciplines, well-defined authority levels, transparency of underwriting considerations that are open to debate and challenge, and forums for active discussion of trends, issues and underwriting strategy, as well as individual risk decisions.

The GEC has delegated responsibility for leading and directing underwriting activities to the Group Chief Underwriting Officer supported by the Group Underwriting Board. The Group Chief Underwriting Officer is accountable to the GEC and the Group Board of Directors regarding global underwriting performance.

The Group Underwriting Board works with the Group Chief Underwriting Officer to improve results by stretching underwriting thinking, planning and implementation through problem-solving, mentoring and challenge.

Strategy for managing underwriting risk
Catlin seeks to underwrite a diverse portfolio to enhance the potential returns for the accepted risk, both to increase profits and minimise capital exposure.

Catlin controls downside risk to capital via an underwriting portfolio that is diversified by both class and geographic markets.

Correlated risks are monitored and managed to enhance profit potential. Strategies for individual classes or territories are developed considering the Group's balance sheet in order to take best advantage of profit opportunities.

The outwards reinsurance programme is structured to provide capacity for the gross underwriting strategies and to ensure efficient use of the Group's capital within the approved risk appetite. Catlin's underwriting portfolio includes a material segment that is exposed to loss from catastrophic events or other correlated exposures. The inherent risk of a large aggregation of such losses poses one of the most substantial risks to the Group. Exposure to catastrophes and other material correlated exposures is modelled and managed to ensure alignment with the Group's approved risk appetite. Catlin has put in place a robust control structure to monitor the aggregation of materially correlated exposure. This exposure is further protected by a risk transfer programme that responds to an array of possible catastrophic events.

On an annual basis, the underwriting hubs and the GEC develop an underwriting plan for the consideration of and approval by the Group Board of Directors and the boards of the Group's insurance carriers. The Group Underwriting Board and the GEC monitor and report on the performance against the plan and pricing adequacy by hub and by class of business.

The Group Claims Director directs claims operations across the Group. Claims pose the greatest threat to Catlin's relationship with its clients since the value of the coverage sold by the Group will ultimately be judged by the way in which claims are handled.

Catlin has implemented a claims process and philosophy designed to ensure claims are settled swiftly and fairly, best protecting the interests of all stakeholders. The Claims function has in place approved policies and procedures which include defined authority levels, protocols for management oversight, an automated system to support and report on all major claims activity, and a formal review process for major claims. Internal and, if appropriate, third-party reviews of claims operations are conducted to ensure that the control framework is effective.

Management of reserving risk
Reserves for unpaid losses represent the largest single component of the Group's liabilities. Loss reserve estimates are inherently uncertain. Actual losses that differ materially from the provisions can have a significant impact on future earnings and the Group's balance sheet.

Catlin has a large, experienced team of actuaries and other actuarial staff which acts independently of Underwriting and Claims at all times. Actuaries work closely with other functions within the business to provide analysis, challenge, monitoring and reporting to these functions to ensure detailed understanding of the Group's exposures and loss experience, although underwriting decisions remain the responsibility of the Underwriting function.

Analysis of the reserve requirements are initially developed by actuaries embedded within the underwriting hubs with close knowledge of local underwriting activities. Reserves are subsequently reviewed by the Group Actuarial team and the Group Reserving Committee. Reserves are then presented to the Group Audit Committee for recommendation to the Group Board. The Group Chief Actuary oversees Catlin's reserving processes and reports separately to the Group Audit Committee. In addition, the Group receives independent external analysis of its reserve requirements.

Management of financial markets risk
The objective of the investment function is to create economic value for the Group whilst managing GAAP earnings risk and maintaining appropriate liquidity to meet expenses and claims within a comprehensive internal risk limit framework to minimise the downside risk to capital. The majority of Catlin's investments are in a low-risk core portfolio of cash and high-quality fixed income investments that are aligned with the profile of the Group's liabilities. This is complemented by a tactical portfolio invested in other instruments to extract liquidity premium and to benefit from market opportunities as they may arise.

All Group and subsidiary investments are managed by the Group Chief Investment Officer, under the direction of the GEC and the Investment Committee of the Group Board of Directors. The Group Board of Directors, through the Investment Committee, reviews and approves on a regular basis the investment strategy proposed by the Group Chief Investment Officer along with the limits contained in the Market Risk Framework. Subsidiary boards review and approve the strategy and the Investment Management Framework as it applies to investment of each subsidiary's assets.

Regular modelling is performed to test the structure, performance and liquidity of the investment portfolio in scenarios that include extreme insurance events coupled with investment losses. The economic market risk within the investment portfolio is monitored against set limits measured against a Minimum Risk Benchmark based on the cash flow profile of the liabilities of the Group. Limits are also in place to monitor the Financial Markets Risk in the annual accounted earnings under US GAAP.

The Head of Financial Markets Risk, within the Enterprise Risk Management function, independently reports to the GEC and the Board's Investment Committee regarding the position of Group assets relative to the Minimum Risk Benchmark and also monitors the risk within a set of agreed limits. This includes a qualitative assessment of the investment strategy to address any emerging issues that may not be reflected in historical data. Assets by subsidiary entity are tested against a benchmark based on the legal entity liabilities with regular reporting to the subsidiary entity management.

The Group has in-house investment portfolio management capabilities. In-house portfolio management activities are fully embedded in the Financial Markets Risk Framework and risk control and oversight processes as necessary.

Before a decision is made to contract with an external investment manager or invest in a fund, comprehensive due diligence and analysis is carried out by an in-house team, assisted by external professionals where appropriate. A new products approval process is followed for any new investment instrument.

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

The Group continually monitors and stress tests its cash and investments to ensure that the Group meets its risk appetite for liquidity requirements.

The Group Treasurer, together with local financial officers, is responsible for ensuring that sufficient liquid investments are available as required by the Group and its subsidiaries. The Group Treasurer is also responsible for ensuring that cash is not overly concentrated with any one institution and operates within agreed limits.

The Group conducts business in a number of different currencies, primarily US dollars, sterling and euros. Trading risk arises from potential currency mismatch between cash flows. There is also the risk of gains or losses arising from exposure in currencies other than the entity reporting currency and upon consolidation. The Group takes steps to manage, but not eliminate, those risks. To reduce foreign exchange risk, the Group Treasurer considers the Group's currency requirements and the risks arising from foreign exchange fluctuations.

Key financial markets risks to the Group relate to inappropriate strategy, misalignment with Group risk appetite and inability to achieve appropriate diversification. These risks might crystallise as financial loss or insufficient risk-adjusted returns. Through its investment strategy, the Group is exposed to interest rate risk, credit default risk, foreign exchange risk, equity risk, commodity risk, real estate risk, illiquidity risk and inflation risk. As part of the strategy, the Group may hedge its exposures with overlays and options to manage portfolio and macro risks.

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

Catlin has developed sophisticated models to construct portfolios of insurance and reinsurance business that explore the relationship between risk and return. Extensive alternative scenarios are considered, each with a different potential mix of business classes. This modelling enables the consideration of mixes of business that might produce higher levels of expected profitability with less volatility of return. This output is then analysed in the light of practical market and resource constraints to develop tactical shifts in the Group's mix of business to utilise capital more efficiently.

Portfolio management is designed to help move Catlin closer to an efficient frontier where expected return is maximised for a given level of volatility of return. The analysis considers a range of risk metrics over different return periods to ensure that the effects of individual strategies are taken into account to support tactical business planning decisions. This modelling considers dynamic near-term market conditions while maintaining awareness of longer-term strategic aims.

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

- underwriting and investment skill and judgment;
- other underwriting and investment tools and management;
- granular level portfolio management; and
- insight into how markets might evolve.

Management of credit risk
The Group is exposed to credit risk primarily from unpaid reinsurance recoveries, banking counterparties and fixed income instruments in the investment portfolio.

The risk of recovering reinsurance is managed by the Group Chief Operating Officer, who along with the Chief Financial Officer is a member of the Group's Reinsurance Security Committee. This committee establishes security standards applicable to all reinsurance purchases and monitors the financial status of all reinsurance debtors. This committee also reviews and approves the security of all non-traditional risk transfers.

Risk Management

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

Credit risk arising from underwriting risk is managed through the Underwriting Control Framework. There is a high level of communication between the underwriting and investment management staffs to ensure awareness and management of any overlapping credit exposure.

Reinsurers and fixed income instruments are monitored for the occurrence of a downgrade or other changes that might cause them to fall below Catlin's security standards.

A comprehensive set of concentration limits designed to reduce the Group's exposure to individual investment and banking counterparties is monitored by the Head of Financial Markets Risk within the ERM function independently of the operating functions. Areas where significant concentration of risk may exist within inwards underwriting and outwards reinsurance follow a similar set of principles. The Group believes that there are no significant concentrations of credit risk between its investments or its reinsurers.

Management of operational risk

Catlin's commitment to the management of operational risk requires that a robust risk identification and assessment programme operates consistently throughout the Group and that management is required to ensure that a risk and control framework is in place to protect against potential operational failures.

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

The Operational Risk and Control Framework comprises a number of components that allow the Group to manage and monitor its operational risk profile. The minimum standards for each of the components are set out in the Group Operational Risk Policy and implemented across the Group, with every member of staff accountable for actively managing operational risk.

Risk assessment is core to the framework and used to identify and assess the key operational risks intrinsic to Catlin processes, products, systems and material change activities. For all key operational risks, a specific control framework is in place that includes processes by which business areas actively manage the risks.

The formal Operational Risk Assessment Programme is directed by the Group Head of Operational Risk, who together with the Group and local risk teams support business areas and hubs by provision of expert guidance to deliver a robust risk identification and control assessment and to assist with oversight of compliance with risk policies and control frameworks.

Assurance

The GEC and the Group Board of Directors actively seek assurance over the effectiveness of the Risk and Control Framework. The Group Head of Internal Audit directs a risk-based internal audit programme across all Group operations and subsidiaries. The programme is designed to assist the Group Board and the GEC to protect the assets, reputation and sustainability of the organisation. It does this by assessing whether all significant risks are identified and appropriately reported by management and the risk function to the Group Board and the GEC; assessing whether these risks are adequately controlled; and by challenging the GEC to improve the effectiveness of governance, risk management and internal controls.

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

Enterprise Risk Management also provides a Model Validation Framework based upon the same three lines of defence within the rest of the business. The high level of use and application of the internal capital model within the business provides a natural element of validation between the capital modelling and senior management and other stakeholders. The structure of the Enterprise Risk Management function enables subject matter experts to peer review the theory, expert judgment and assumptions used in the model.

Strategic Report

Investments

Summary

- 2014 total investment return of 2.6 per cent exceeded the Group's expectations.
- The return includes a US$31 million valuation gain on loans made to Box Innovation Group Limited, in which Catlin is selling its stake.
- Catlin's investment strategy aims to create economic value while managing earnings risk and maintaining appropriate liquidity levels

Total return before management fees produced by Catlin's average cash and investments of US$9.27 billion (2013: US$8.86 billion) during 2014 amounted to 2.6 per cent (2013: 1.5 per cent).

Total investment return before fees amounted to US$241 million (2013: US$135 million), which was above the Group's expectations.

The Group's investment portfolio benefited from strong gains on risk assets, in particular from in-house managed risk mandates and from interest income on fixed maturities.

Investment performance

The Group's total investment return is analysed in Chart 1.

The Group's investment performance in 2014 is analysed by major asset category in Table 2.

The total return from fixed maturities was mainly attributable to interest income. Net gains from fixed maturities attributable to the decrease in medium and longer-term interest rates were modest as the Group maintained a relatively low duration position during the year. The return is stated net of performance on fixed maturity overlays.

The return on other invested assets reflects strong gains from in-house-managed risk assets, primarily special situations equities and from a US$31 million gross valuation gain on loans made to Box Innovation Group Limited, the owner of telematics auto insurer 'Insure the Box', for which Catlin agreed to the sale of its stake in December 2014. The remaining estimated US$40 million gain on the sale will be distributed to shareholders upon completion by way of a special dividend. The remaining estimated US$40 million gain on the sale will be realised when the disposal – subject to regulatory approval – is completed, which is expected in the first quarter of 2015. The net surplus arising from the sale will be distributed to shareholders upon completion by way of a special dividend.

Chart 1

Contribution to total investment return (US$m)

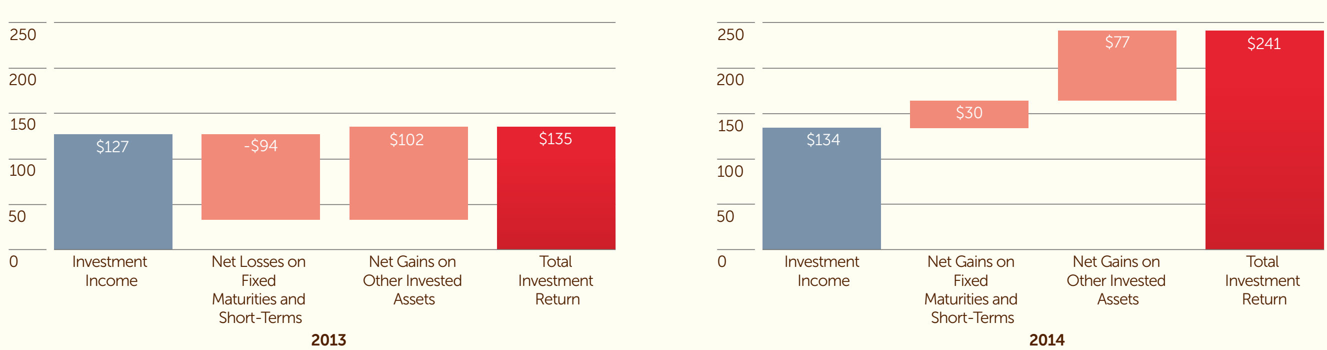


Table 2

Investment performance by major asset category (US$m)

	Allocation at 31 December 2014	Average allocation during period	Average allocation during period (%)	Total return	Total return (%)
Fixed maturities and short-term investments	7,714	7,140	77%	126	1.8%
Cash and cash equivalents	957	1,486	16%	4	0.3%
Other invested assets	604	640	7%	111	17.3%
Total	**9,275**	**9,266**	**100%**	**241**	**2.6%**

Investments

Portfolio management and positioning

Catlin's total cash and investments increased by 1 per cent during 2014 to US$9.28 billion (2013: US$9.22 billion). The growth of the portfolio attributable to investment return and net operating cash inflows was largely offset by losses on revaluation of Catlin's non-US dollar cash and investments due to dollar strengthening against all major investment currencies during the year.

The portfolio's asset allocation at 31 December 2014 is shown in Table 3.

The Group's investment portfolio remains liquid with the largest proportion of assets invested in high-quality core fixed maturities and short-term instruments.

Cash and cash equivalents decreased to US$957 million at 31 December 2014 (31 December 2013: US$1.89 billion), as the Group deployed portions of its cash holdings into core fixed income securities. Deposits managed centrally by Lloyd's are now included in fixed maturities, whereas previously they were reported as cash and cash equivalents. A reclassification to the value of US$401 million has been made to the balance sheet at 31 December 2013 to reflect this change.

Table 3

Asset allocation at 31 December (%)

	Allocation at 31 December 2014	Allocation at 31 December 2013
Fixed maturities and short-term investments	**83%**	72%
Cash and cash equivalents	**10%**	21%
Other invested assets	**7%**	7%
	100%	100%

Table 4

Detailed asset allocation (%)

	2014	2013
Fixed maturities and short-term investments		
US government and agency securities	**16%**	7%
Non-US government and agency securities	**20%**	20%
Agency mortgage-backed securities	**9%**	6%
Asset-backed securities	**7%**	11%
Covered bonds	**7%**	6%
Corporate bonds	**22%**	18%
Commercial mortgage-backed securities	[1]	1%
Non-agency mortgage-backed securities	[1]	1%
Short-term investments	**2%**	2%
	83%	72%
Cash and short-term investments	**10%**	21%
Other invested assets	**7%**	7%
Total	**100%**	100%

1 Less than 0.5 per cent

The Group continues to manage all US dollar core investment portfolios in-house; these amounted to US$5.5 billion in assets at 31 December 2014. The management of non-US dollar core portfolios of US$1.6 billion remains with a small number of external managers. US$406 million in risk assets were under management with specialist third-party tactical managers at 31 December 2014.

Within the fixed income portfolio, the Group benefited from sector rotation and increased its exposure to US taxable municipal bonds, which offered superior relative value in 2014, while reducing its exposure to asset-backed securities to 7 per cent of cash and investments (2013: 11 per cent). Actively managed yield curve positioning and security selection in corporate bonds and structured products also contributed to a positive investment performance.

Other invested assets amounted to US$604 million, mainly relating to direct investments in special situations equities and loans managed by the in-house team, select external tactical managers, as well as private equity funds and co-investments with strategic investment partners. The Group reduced exposure to equities during the second half of 2014 as select special situations positions reached their price targets, while the Group continued to build the Catlin expertise portfolio.

The Group maintains sufficient unrestricted liquid assets to provide for a 1-in-100 portfolio event, taking into account all risk sources plus minimal ongoing treasury operational needs. At 31 December 2014 the total amount of unrestricted liquid assets amounted to US$3.0 billion (31 December 2013: US$2.8 billion).

A breakdown of the investment portfolio by sector is shown in Table 4.

Asset quality

Catlin's fixed income portfolio at 31 December 2014 consisted of high-quality assets, with 97 per cent of the portfolio invested in government/agency securities or instruments rated 'A' or higher (2013: 97 per cent). The quality of the Group's fixed income portfolio is analysed in Table 5.

The Group does not have any direct exposure to Portugal, Italy, Ireland, Greece and Spain in its investment portfolio, and its exposure to emerging markets at 31 December 2014 was insignificant.

Duration positioning and yield

The duration of the Group's insurance liabilities was 2.8 years at 31 December 2014, which resulted in a liability benchmark duration (including shareholders' funds and new business cash flows) of 2.6 years or US$2.4 million in DV01 (change in value for a 1 basis point parallel shift in interest rates).

The Group actively managed its asset duration positioning across the interest rate curve primarily by using interest rate swaps. The duration of total cash and investments at 31 December 2014 was 1.2 years (2013: 1.1 years) or US$1.1 million in DV01 (2013: US$1.0 million). The Group continues to remain short of the liability benchmark in the expectation that interest rates will rise.

The yield to maturity on the fixed income portfolio was 1.4 per cent at 31 December 2014 (2013: 1.5 per cent).

Table 5

Fixed income investments by rating at December 2014

	Government agency	AAA	AA	A	BBB	Non-investment grade	Assets US$m
US government/agencies	19%	–	–	–	–	–	1,447
Non-US government/agencies	25%	–	–	–	–	–	1,867
Corporate bonds	–	1%	11%	13%	1%	2%	2,058
Covered bonds	–	9%	–	–	–	–	675
Asset-backed securities	–	7%	1%	[1]	–	[1]	637
Agency mortgage-backed securities	11%	–	–	–	–	–	791
Non-agency mortgage-backed securities	–	[1]	–	–	–	[1]	36
Commercial mortgage-backed securities	–	–	[1]	–	–	–	3
Total	**55%**	**17%**	**12%**	**13%**	**1%**	**2%**	**7,514**

1 Less than 0.5 per cent

Investment strategy

The Group's investment portfolio at 31 December 2014 reflects the investment strategy that was initiated during 2010. The objective of the investment function is to create economic value for the Group whilst managing earnings risk and maintaining appropriate liquidity levels to meet claims and expenses. The investment strategy operates within a comprehensive Market Risk Framework that is based on capital, liquidity and risk-adjusted returns and which is independently overseen by Catlin's Enterprise Risk Management team.

Under this strategy, a significant majority of Catlin's investments comprise a core portfolio of highly rated sovereign, agency and corporate bonds and mainly AAA-rated short-duration asset-backed securities. The core portfolio is aligned with the profile of the Group's liabilities and managed by the in-house team and a select group of external managers.

The Group continues to actively manage the in-house special situations portfolio together with a select and limited number of complementary external tactical mandates. The Group continues to acquire private equity investments with a longer-term horizon which capture illiquidity premium and benefit from market dislocations.

The Group uses overlays to manage portfolio and macro-economic risks efficiently. As at 31 December 2014, the Group had in place options which provide economic risk protection in the event of a significant movement in interest rates and which provide protection against significant levels of credit spread widening and against a material fall in equity markets. The overlay positions are reviewed and adjusted to manage the overall risk position of the investment portfolio.

Investment outlook

Catlin's investment strategy will continue to focus on capital preservation. Geopolitical tensions, European Union and deflationary concerns, and a slowdown in China have contributed to risk asset volatility and provide a bid for high-quality fixed income assets. This backdrop sets a difficult outlook for 2015 with the total return on fixed maturities remaining under pressure given the continued low-yield environment.

The Group remains positioned to actively manage duration positioning and sector allocation, depending on market developments. The Group is expected to benefit from higher rates as the economic value of the Group's liabilities would reduce by more than the reduction in value of its fixed income investments, given the shorter asset duration.

Catlin has established a strong platform to continue investing in attractive opportunities in the special situations and private equity sector while actively managing macro-economic risks. The Group will also continue to build on its successful relationship with a small group of third-party specialist managers in selected sectors and asset markets in accordance with evolving risk/reward opportunities.

Strategic Transformation Programme

- Systems development will help open new markets and support the launch of new products.
- First phase of US system project completed in February 2015.
- Expansion of shared services provides high-quality operational services in a scalable and efficient way.
- Improvement in data quality will enable processes and activities to run more smoothly.

Catlin's Strategic Transformation Programme is designed to increase the efficiency, scalability and flexibility needed to support future growth.

During the past year, the initiatives included in the programme – which cover systems, shared services and data management – have all progressed and are on track to meet defined targets. These initiatives form a base to better support Catlin's business functions, especially Underwriting and Claims.

Systems

The implementation of Catlin's strategic IT systems roadmap is proceeding according to expectations. The three-year project launched in 2013 to replace the US hub's insurance operations system with a market-leading software package is on track for completion in 2016. A key milestone has been reached with the successful delivery of the first project phase in February 2015; this phase enables the entire foundation of the new platform and supports the hub's General Agencies Solutions binding authority business. The project's second phase began in November 2014 and is in the detailed initial requirements-gathering stage.

While the system can eventually be used as a global platform for certain direct insurance functions, including claims management, the initial focus is on the US hub. The system will increase the hub's transactional system capabilities and will allow Catlin to grow its US-based business while effectively managing operations in a cost-effective manner. It will also serve as a catalyst for future transformation, allowing the Group to:

- write and support business that it cannot access today;
- enable better portfolio management and business decision-making through the use of more structured and accurate data; and
- enhance efficiencies and scalability through automation and standardisation of processes.

The end result will enable Catlin to open new markets, support the launch of new products and attract new clients.

Several improvements to the Group's internal processes and standards have been made to increase efficiency surrounding the planning and management of changes to IT systems and applications. Furthermore, the systems organisational structure has been simplified and aligned to key responsibilities; additional systems management capacity has also been added.

Shared services

The Group continued its strategy of expanding the use of shared services throughout 2014. The aim is to provide high-quality operational services in a scalable and efficient way that will enable further profitable growth.

There are now approximately 400 individuals employed in the Group's three service centres in Wroclaw, Poland; Kuala Lumpur, Malaysia; and Scottsdale, Arizona. These employees represent approximately 15 per cent of the Group's total headcount. The services provided include activities such as Data Processing, Underwriting Administration, Claims Handling and London Market Operations.

The largest growth has been in the European Shared Services Centre in Wroclaw, where more than 150 people perform functions that include Accounts Payable, Insurance Accounting, Reinsurance Operations, Claims Support, Management Information and the global IT Service Desk. Wroclaw is a growing centre for shared services and is internationally recognised as a desirable place to establish operational capabilities.

The Group's aim during 2015 will largely be to realise opportunities to broaden and improve the quality of the services offered by all three centres, while realising the potential of increased scale to drive efficiency and contribute to the Group's overall profitability.

Data Management

Quality data is essential to the Group to gain analytical insights into the business it underwrites. These insights can include, for example, trends in claims frequency or severity, which then can influence pricing decisions made by underwriting teams.

Over the past two years, Catlin has refined its approach to Data Management to facilitate engagement between the Data Management team and the actual users of data throughout the Group. During 2014, Catlin appointed a Chief Data Officer, which has centralised governance of the Group's data.

The Chief Data Officer and his team are responsible for:

- assuring the overall quality of data across the organisation;
- ensuring that data definitions and data ownership are in place;
- centralising data to make it more readily available to the various systems in use across the Group;
- embedding consistent reporting throughout the six underwriting hubs;
- providing management information; and
- improving the analytical abilities of the Group to provide insights into various Group functions, including underwriting trends, pricing and claims management.

The Data Management programme, which incorporates continuous improvement techniques, combines with the US system development project to further Catlin's aim of producing higher-quality and more consistent data, enabling processes and activities to run more smoothly. The establishment of the shared services centres helps this effort by centralising and improving the quality of common support functions required across the business.

We Cover Your World

Serving Our Communities

"We truly believe we have an obligation to the communities which Catlin serves. This includes learning more about the risks our planet faces in the future."

Vanya Harris
Head of Corporate Responsibility

Over the past decade, Catlin has developed various initiatives that aim to improve the quality of life in the communities in which our offices are located.

Each of the Group's six underwriting hubs are responsible for their own community programmes, which primarily support young people and their families, education and the environment. The broadest programmes are based in Bermuda, the site of the Group's headquarters, and the United Kingdom, where more than one-third of employees are located.

Widely diverse activities
Catlin's community initiatives represent an eclectic mix of undertakings.

In keeping with the Group's focus on young people and education, the London hub since 2009 has worked in partnership with St Paul's Way Trust School, a secondary school located in an impoverished area near Catlin's London office. When Catlin and other parties began their efforts to improve St Paul's Way, the school was rated as substandard. Today, the secondary school has been rated as 'outstanding' by UK school inspectors, and St Paul's Way has now added 'Sixth Form' and primary curriculums to better serve the local community.

Likewise, the Bermuda hub has engaged in a longstanding programme with Cedarbridge Academy, a secondary school, under which Catlin employees serve as mentors to students (see page 68).

A different Catlin programme directed toward young people is the Catlin Art Prize, which is awarded each year to a recent graduate of a UK art school. Now in its ninth year, the Catlin Art Prize has become one of the most prestigious honours in the UK art world.

Catlin also seeks to lift the spirit of the communities it serves: from partnering with the Tower of London to produce the world renowned 'poppy installation' in commemoration of the start of the First World War to sponsoring a squad in Bermuda's most popular sporting event, the annual World Rugby Classic.

Environmental research
As a global insurer, Catlin accepts that it has a responsibility to the entire planet. Insurers are in the business of helping clients manage risk, so it is natural that Catlin would help the scientific community learn more about the risks that future generations will face.

Catlin began this commitment in 2009, when it first sponsored the Catlin Arctic Survey. Since 2012 we have focused on learning more about coral reefs – which serve as an early warning system for climate and other changes in our environment – through the sponsorship of the Catlin Seaview Survey (see page 74).

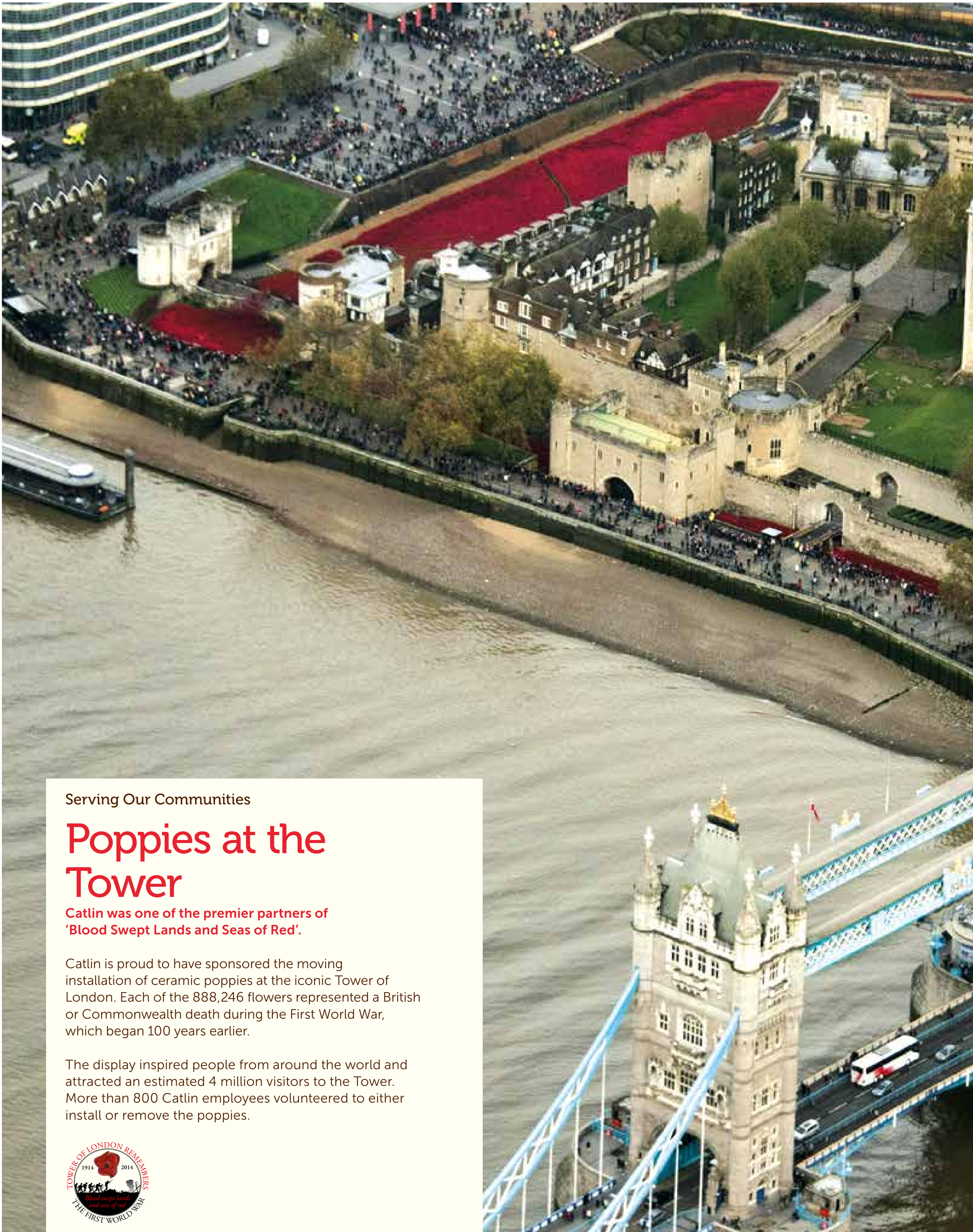
Catlin's community programmes primarily focus on young people and the environment.

Catlin made US$2,221,068 in charitable contributions in 2014.

US$2.22m

Catlin has sponsored environmental research projects for the past seven years.

7



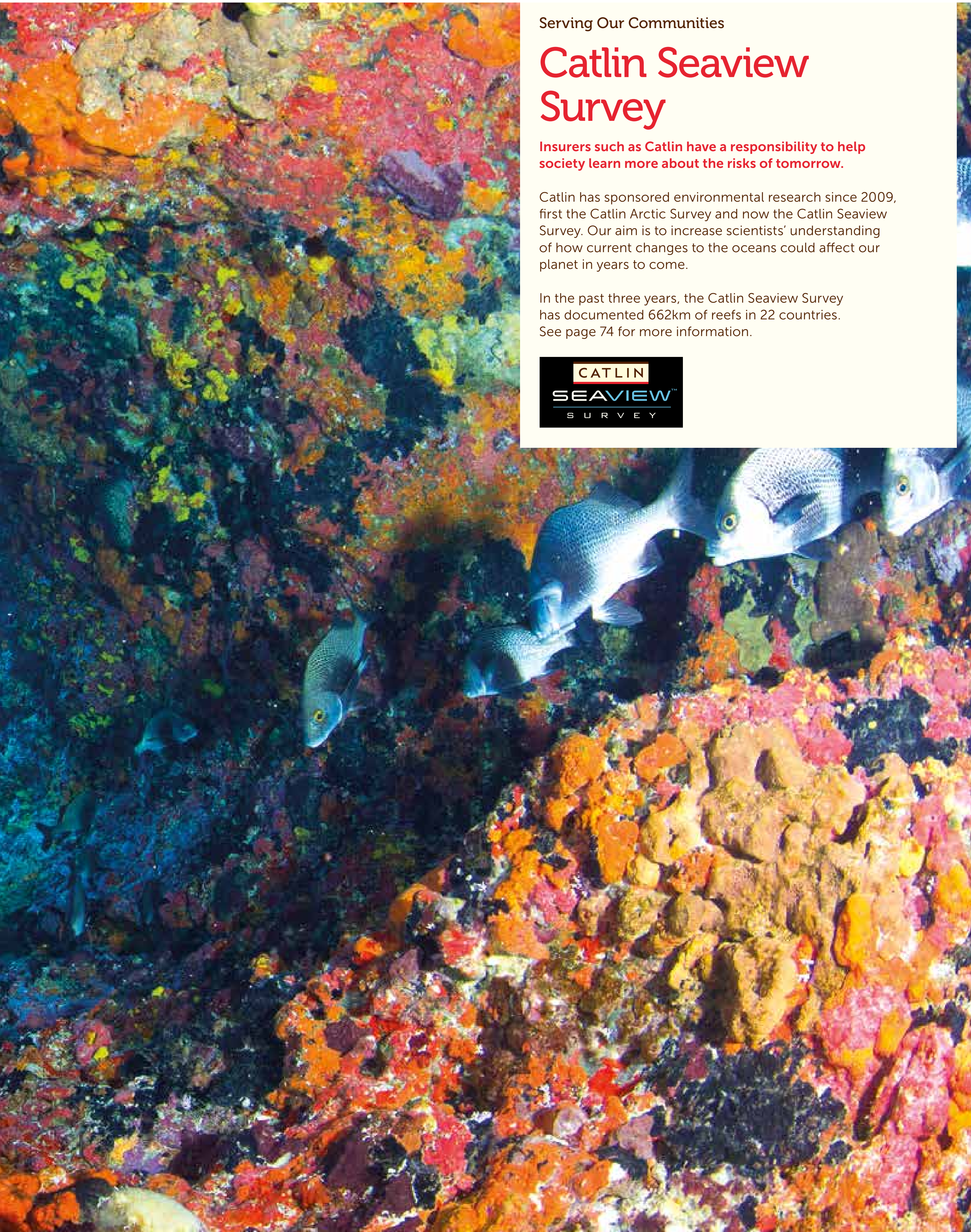
Serving Our Communities

Poppies at the Tower

Catlin was one of the premier partners of 'Blood Swept Lands and Seas of Red'.

Catlin is proud to have sponsored the moving installation of ceramic poppies at the iconic Tower of London. Each of the 888,246 flowers represented a British or Commonwealth death during the First World War, which began 100 years earlier.

The display inspired people from around the world and attracted an estimated 4 million visitors to the Tower. More than 800 Catlin employees volunteered to either install or remove the poppies.



Serving Our Communities

Catlin Seaview Survey

Insurers such as Catlin have a responsibility to help society learn more about the risks of tomorrow.

Catlin has sponsored environmental research since 2009, first the Catlin Arctic Survey and now the Catlin Seaview Survey. Our aim is to increase scientists' understanding of how current changes to the oceans could affect our planet in years to come.

In the past three years, the Catlin Seaview Survey has documented 662km of reefs in 22 countries. See page 74 for more information.

Serving Our Communities

Catlin Art Prize

Catlin's corporate responsibility programmes focus on young people and education.

Catlin has implemented programmes worldwide to benefit future generations. One of the oldest is the Catlin Art Prize, which recognises the talents of recent graduates of UK art schools and showcases their work through a month-long public exhibition.

Established in 2007, the Catlin Art Prize has steadily grown in importance and is now one of the highlights of the UK art calendar.

Serving Our Communities

World Rugby Classic

Catlin is headquartered in Bermuda, and we take our responsibilities to the island seriously.

Since Catlin Bermuda began operations in 2002, the Group has strived to help improve the spirit and well-being of the community. For example, since 2008 Catlin has sponsored the Catlin End to End, which is Bermuda's largest charitable fund raising event.

We are also proud to play a role in the annual World Rugby Classic featuring veteran players. Catlin has traditionally sponsored the South African squad, which won the competition in 2013.

WORLD RUGBY CLASSIC BERMUDA


CATLIN
17
CATL
3
CATLI
19


JOIN THE
KINDNESS
OFFENSIVE

Serving Our Communities

Kindness Offensive

Catlin employees joined forces with a charity to make Christmas joyful for disadvantaged children.

Catlin worked in partnership with The Kindness Offensive, a London-based organisation, in 2014 to spread a special type of Christmas cheer.

The charity solicited the donation of 15,000 toys and other items to be distributed to underprivileged and ill kids. Hundreds of Catlin employees joined those from other companies in an empty office to wrap more than 20 tonnes of gifts, many of which were delivered to hospitals and charities that same day. See page 69.

We Cover Your World

Our Values

"Despite the differences in our employees' nationalities, languages and cultures, what unites Catlin's people worldwide is our commitment to a common set of values."

Stephen Catlin
Chief Executive

Catlin's five core values serve as the foundation which underpins all of the Group's activities.

Our culture is based on five core values.

5

Number of Catlin employees at 31 December 2014.

2,517

As Catlin has evolved, one thing has not changed: the commitment of the Group and its employees to five core values.

These values – transparency, accountability, teamwork, integrity and dignity – aren't difficult to understand. Perhaps it's their simplicity that allows employees in 25 different countries to ignore their cultural differences and work together to produce superior value for clients and shareholders alike.

This common bond forms that basis of the Catlin Culture and is at the heart of our brand.

Catlin seeks out prospective employees who display and embrace the core values. Applicants to our graduate recruitment programme must answer questions designed to identify candidates who best demonstrate these values. Employees' annual appraisals take measure of how individuals' performance aligns with our culture and values.

These five values are evident in the Group's day-to-day actions. They drive our underwriting decision-making, and they empower our claims managers to provide clients and brokers with service that has been rated as the best in the marketplace. And, the five core values are the basis for our corporate responsibility initiatives.

Our employees' commitment to these values is what we believe really differentiates Catlin from many other companies in our sector.

Catlin's five core values

- **Transparency**
  Catlin encourages open communication, both with clients and brokers and among employees.

- **Accountability**
  Employees are expected to take responsibility for their actions and decisions. They should think and act like owners.

- **Teamwork**
  Employees should act in the best interests of the Group as a whole, not their own office or function. Catlin's single bonus plan supports this 'Group-first' mentality.

- **Integrity**
  Employees' conduct must reflect the highest ethical standards. All employees subscribe to the Catlin Code of Ethical Conduct and reaffirm their commitment annually.

- **Dignity**
  Catlin employees are expected to treat clients, brokers, other counterparties and their fellow workers fairly and with respect.

The Catlin Culture

Summary

- The Catlin Culture and the Group's five core values serve as the foundation for all operations.
- Catlin aims to attract and return high-calibre employees.
- Catlin's underwriting and claims service is highly rated by brokers.
- An important part of the Catlin Culture is service to communities.

The Catlin Culture is the distinctive way that the Group conducts business. This culture, based on the Group's five core values, has been nurtured since Catlin was founded 30 years ago. It is so important to the Group that it forms part of Catlin's operating strategy (see page 8).

At Catlin, employees are empowered to act and think like owners, which helps align employees' interests with those of shareholders. The Catlin Culture also helps the Group to attract and retain top-quality employees and makes Catlin an attractive destination for both graduates and individuals looking for a new career opportunity.

The Catlin Culture also demands ethical working practices; nothing less is tolerated. It fosters Catlin's commitment to providing outstanding service to clients and their brokers.

Catlin's active participation in endeavours to improve life among the community is linked to the culture. These activities range from broad-based, international projects – such as the Catlin Seaview Survey – to smaller projects that impact segments of local communities and individual employees' volunteering efforts. The Group's community initiatives primarily focus on young people, families, education and the environment.

As befitting the sponsor of environmental research, Catlin is aware of its own responsibilities to the environment and strives to be a sustainable business partner.

This report on the Catlin culture is divided into four areas:

- **Workplace:** how Catlin implements responsible employment practices and policies to support the goal of being the employer of choice in our business sector.
- **Marketplace:** how the Catlin Culture fosters a commitment to high-quality of service to clients and their brokers.
- **Community:** the activities in which the Group and its employees participate to improve the quality of life in the communities in which our offices are located.
- **Environmental:** Catlin's commitment to sustainable operations and its efforts to make valuable contributions towards a better understanding of our planet's future.

FTSE4Good

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

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

The Catlin Culture

Workplace

Catlin must attract, develop and retain high-calibre employees if the Group is to implement its operating strategy successfully. The Group considers as its greatest asset the more than 2,500 talented employees who work at Catlin.

The Group's workplace and employment policies have been designed to encourage a positive, high-performance working environment through which employees can fulfil their career ambitions. These policies, which form an integral part of the Catlin Culture, encourage employees to act to the best of their abilities and emphasise the partnerships that exist among Catlin, its employees, clients and brokers. In addition, Catlin's remuneration philosophy emphasises the linkage between reward and performance to align employees' interests with those of shareholders.

Catlin aims to recruit and employ a diverse workforce of talented individuals regardless of race, colour, religious belief, gender, sexual orientation, nationality, ethnic origin, age or disability. In particular, the Group seeks employees who will be committed to a long-term career with the Group.

Catlin's employees have diverse backgrounds as befitting an international company, and collectively they embrace Catlin's five core values.

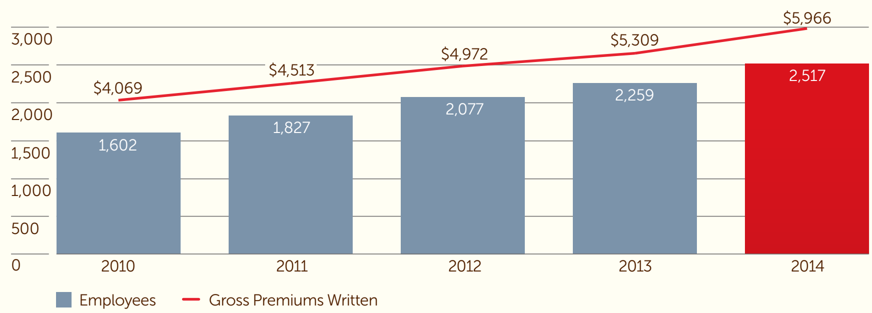
Our employees

At 31 December 2014 Catlin employed 2,517 people, an 11 per cent increase during the year (2013: 2,259). During 2014 Catlin employees were based in 55 offices in 25 countries.

As in past years, the Group's workforce in 2014 grew in line with the increase in gross premiums written, which increased by 12 per cent (see Chart 1).

Chart 1

Employee growth per year at 31 December (GPW in US$m)

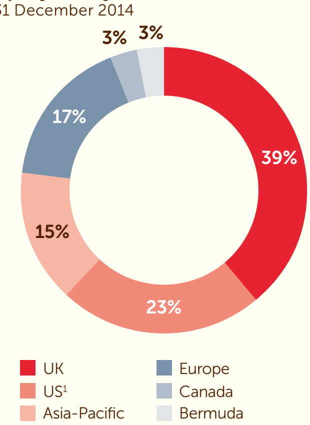


The greatest employee growth was in Europe, which includes Catlin's shared services centre in Wroclaw, Poland, which was established in 2013. Headcount among European offices increased by 39 per cent in 2014, primarily due to a 200 per cent increase in the number of employees working in Wroclaw. The Group believes that the centralisation of services in Wroclaw and other shared services centres will increase efficiency, improve service levels and reduce costs over the long term (see page 48). The number of employees working in offices in the London, Bermuda and Canada hubs decreased in 2014.

A breakdown of employees by the underwriting hub in which their offices are located is shown in Chart 2.

Chart 2

Employees by location
at 31 December 2014

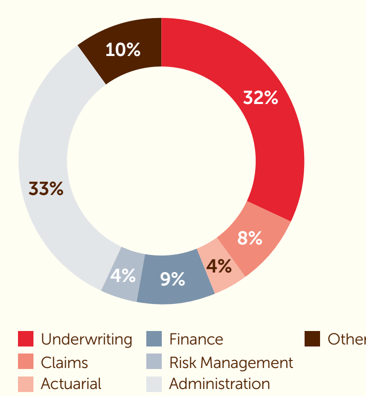


1 Employees working in offices in Brazil and Colombia are included in the US underwriting hub.

Nearly 45 per cent of the Group's employees hold Underwriting, Claims or Actuarial positions (see Chart 3).

Chart 3

Employees by function
at 31 December 2014

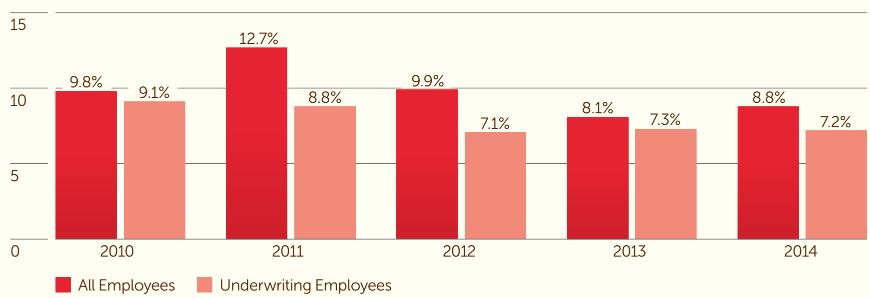


Fifty-four per cent of the Group's global workforce is male; 46 per cent is female (2013: 54 per cent, 46 per cent). Female representation on the Group's Board of Directors is 25 per cent (2013: 14 per cent). Excluding the Executive Directors, women represent 17 per cent of senior management, which Catlin defines as the membership of the Group Executive Committee (2013: 17 per cent).

One of the Group's most important goals is to retain high-quality employees. During 2014 voluntary employee turnover (excluding redundancies) amounted to 8.8 per cent, on par with historic levels (2013: 8.1 per cent). Voluntary turnover among underwriting employees amounted to 7.2 per cent (2013: 7.3 per cent). Employee turnover during the past five years is shown in Chart 4 on page 63.

Chart 4

Employee voluntary turnover rate (%)



Building and developing talent

Catlin employees represent a deep and diverse pool of talent. The Group seeks to identify and develop individuals who have the greatest potential to help Catlin achieve its strategic goals and increase shareholder value.

In January 2014 Catlin Group established a Talent Sourcing function. The purpose of this team is to leverage the Catlin Culture and core values – which serve as a magnet for high-performing professionals from within and outside the global insurance industry – to access and deliver a broader range of talent to the Group. First and foremost, the Talent Sourcing team provides an effective direct search capability, using in-depth market knowledge to map and identify talent at competitors and to recruit niche or senior roles. The team also provides advice and solutions to the Group globally on how best to identify, attract and assess external candidates.

Talent Sourcing in 2014 resulted in a substantial reduction in costly employment agency usage, helping deliver a savings of nearly 50 per cent in recruitment costs compared with 2013. Talent Sourcing has also increased the Group's use of social media and other online platforms to raise awareness of the Group's proposition as an employer of choice in the insurance market. The team has achieved recognition in the United Kingdom as the 2014 Best Newcomer In-House Recruitment Team in the In-House Recruitment Awards for Excellence.

The Catlin Development Programme ('CDP') was established in 2009 to broaden the talent within the organisation and to continue to build a business for the future. CDP participants include recent graduates specifically recruited for the programme as well as individuals in the early stages of their careers at Catlin. The programme continues to see increasing demand, attracting nearly 14,000 applications in the United Kingdom in 2014 and many thousands more from other nations.

The CDP is an intensive mix of technical understanding, personal development, professional qualifications and cross-departmental business rotations. These rotations allow participants to develop specialist knowledge within their own functional areas, while building relationships with other teams and gaining a wider, commercial understanding of the business. CDP participants begin their studies towards appropriate industry-related qualifications to develop technical knowledge; they also attend courses focusing on personal development and business awareness.

The CDP enabled Catlin to be ranked third in the 2014–2015 list of the top 100 UK companies for graduates and first in the Accountancy and Insurance category in a survey by www.thejobcrowd.com, a graduate job review website. The survey is based on thousands of comments by employees in their first three years of work.

Catlin also offers an eight-week summer internship programme, open to any student in the penultimate year of university. Interns are given positions across the business to obtain a first-hand experience of working within the insurance market. The programme allows Catlin to identify potential candidates for the CDP.

Learning and development

Catlin continued to invest in its employees through learning and development. The Group is committed to enhancing employees' ambitions by offering a variety of technical, leadership and professional development programmes, as well as mentoring and coaching to selected employees.

Catlin continues to emphasise the creation of leadership globally through the 'Leading Performance Through People' which has been developed specifically for Catlin by Ashridge Business School in the United Kingdom. Managers in the earlier stages of their careers participate in the 'Results Through People' programme. This programme is offered by Catlin offices worldwide, including offices in the Asia-Pacific, Europe, London and US hubs. Managers in Bermuda and Canada participated in the US programmes.

Rewards for performance

The Group's compensation strategy is designed to reward superior performance and attract high-calibre candidates.

All Catlin employees worldwide are included in the Group's single bonus plan. The amount payable is based on the Group's profitability while taking into account other measures of business performance. Individual awards are based on the Group's results and each employee's individual contributions and performance. The plan directly aligns the interests of employees and shareholders by delivering rewards driven by annual results, without incentivising inappropriate risk-taking.

The Group operates long-term incentive share programmes aimed at senior professional, management and executive employees. These programmes are designed to create a direct alignment between remuneration and the Group's long-term financial performance and to support the delivery of sustainable shareholder value. It also aims to motivate and reward participants at market-competitive levels for their roles.

The Catlin Culture

Catlin also offers all-employee share purchase plans in nine countries which are available to 90 per cent of the Group's worldwide employees. These plans offer employees the opportunity to purchase Catlin shares at a discount to market value. The Group believes these plans form an important pillar of its reward strategy as they enable employees at all levels of the business to share in the Group's growth and success.

In 2014 Catlin's London hub was accredited as a 'Living Wage Employer' by The Living Wage Foundation, reflecting the Catlin values of treating employees with fairness and respect.

The Group continues to support an increasing number and variety of employee transfers and assignments among its offices worldwide. International transfers enable Catlin to meet short- and long-term business requirements by transferring knowledge and skills to locations where they are needed. These transfers and assignments also help the Group strengthen and expand its overall skill and talent base, as well as creating new and developmental career opportunities for employees. Fifty-three employees took part in either short-term or long-term international moves in 2014, a 26 per cent increase.

Catlin provides employees with a wide range of non-monetary benefits including pension, life insurance and medical plans. The benefits offered to employees vary from country to country, taking into account local laws and practices. The Group in 2014 created benefits packages for several new office openings and continues to analyse benefit programmes across its locations to ensure that they provide an appropriate level of benefits for the local market and that they are aligned with the Group's reward strategy.

Employee communications

Transparency and teamwork are two of Catlin's five core values, which makes effective communication with employees vital to the Group's success. Communications range from formal announcements delivered by executive management to daily meetings among members of individual teams or functions. In all cases, employees are encouraged to ask questions and provide feedback.

Global 'Town Hall' meetings are held several times annually. These meetings are hosted by the Group Chief Executive or another member of the Group Executive Committee ('GEC') and include presentations by management and by individual employees on topics of global interest. London-based employees attend these sessions in person, whilst the meetings are webcast to all other Catlin employees via 'Catwalk', the Group's intranet. The proceedings can be viewed on demand at a later date.

The CEOs of the underwriting hubs hold similar information sessions for their employees. In addition, the Group Chief Executive and other GEC members hold more informal meetings with employees working in individual Catlin offices during ad hoc visits.

Catwalk, the Group's intranet, is the Group's primary day-to-day communications medium, allowing managers to communicate detailed information to large groups of employees around the world. During 2014 steps were taken by the Group's employee communications team to encourage more content from the non-London hubs to increase knowledge sharing.

Disabled employees and candidates

As part of continuing development of good practice, Catlin takes reasonable steps to ensure that employment policies, procedures and working environments are as inclusive and accessible as possible for candidates and employees. The Group also recognises that its ability to respond to specific requirements depends on two-way communication. For that reason, disabled applicants and employees are actively encouraged to advise the Group of any special requirements so that appropriate reasonable adjustments can be made.

Equal opportunities

Catlin is committed to ensuring that there is no unjustified discrimination in the recruitment, retention, training and development of staff on the basis of age, disability, gender including transgender, HIV/AIDS status, marital status including civil partnerships, pregnancy and maternity, political opinion, race/ethnicity, religion and belief, or sexual orientation

Health and safety

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

Marketplace

Catlin's strives to provide the best possible service to policyholders and the brokers who produce the vast majority of the Group's business. The Group's goal is not only to ensure that all counterparties are treated fairly and honestly, but to make certain that they are satisfied with the levels of service received.

Catlin's commitment to clients and brokers includes:

- making every attempt to meet or exceed expectations;
- ensuring that policy wordings and other documentation are clear, fair and not misleading;
- responding promptly to queries; and
- striving to ensure the highest levels of claims service, including the prompt payment of valid claims.

Ethical behaviour

Integrity is one of Catlin's five core values. Catlin employees are expected to treat all counterparties with dignity, another core value. All Catlin employees must conduct themselves in a manner that reflects the highest ethical standards.

In 2004 the Group adopted a Code of Ethical Conduct, which outlines the commitment by Catlin and its employees to conduct business in a fair, proper and ethical manner in compliance with applicable laws, regulations and professional standards. All new employees are obliged to agree that they will abide by the Code; existing employees annually reaffirm their acquiescence with the Code's provisions. The Code of Ethical Conduct is available on the Group's website.

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

Treating Customers Fairly

Dealing fairly and honestly with customers is the essence of the Catlin Culture, and is a cornerstone of our Code of Ethical Conduct. The fundamentals of Treating Customers Fairly ('TCF') apply throughout the Group.

TCF is more than a commitment to customer satisfaction and covers most aspects of Catlin's business.

All Catlin underwriting, claims and binder management staff who are involved in personal lines insurance received specific TCF training. The principles governing the TCF programme are available to all Catlin employees through the Group's intranet.

Underwriting service

Catlin strives to maintain stable, long-term relationships with brokers who place business with the Group through high standards of underwriting service.

The Group's Broker Partnership function seeks to improve relationships with brokers and to monitor underwriting service levels. The Group uses studies, such as the Gracechurch London Insurers Report conducted by Gracechurch Consulting, as a means to judge the quality of service provided to brokers and to address shortcomings as they are identified. In addition, the Group pays close attention to feedback provided directly by brokers and assureds.

Catlin takes particular notice of brokers' comments that could help the Group make it more efficient for them to place business. For example, in the London market, where underwriter availability can be an issue for brokers, Catlin strives to ensure that a member of each underwriting team is available from 8am to 6pm daily, so that an empowered Catlin underwriter is available to deal with urgent requests. Brokers can monitor underwriters' and claims managers' availability through a bespoke web application.

To increase efficiency further for brokers, Catlin is introducing electronic placement systems, where appropriate. In the London hub, for example, such systems are being used by brokers placing Specie, Terrorism and Cargo risks.

Catlin was rated highly across all categories by brokers responding to the 2014 Gracechurch London Insurers Report. Catlin ranked first as a provider of 'excellent' customer service (see Chart 5) and was also cited as the leader in a number of other service/performance attributes. (see Chart 6).

Claims service

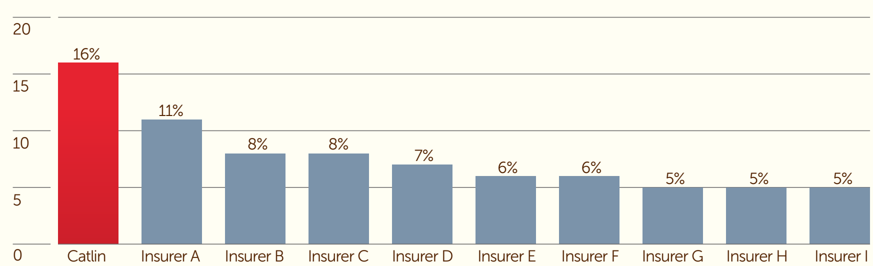
Catlin has long believed that the true value provided by an insurer or reinsurer is best demonstrated after a claim arises. Catlin prides itself on the claims service it offers to clients and brokers, and the Group is regarded as a global leader in claims management (see page 28).

Each of the Group's six underwriting hubs offers its own, localised claims service as part of a network of claims expertise, with local claims teams adhering to consistent Group-wide standards of quality and care. Whenever possible, claims service is tailored to a policyholder's individual need. For example, a policyholder based in one part of the world but whose operations are international in scope can work with Catlin to select the regional claims team that is best-suited to manage a particular claim.

Claims managers work closely with the Group's underwriting and actuarial staffs to provide a holistic service to clients to ensure that any misunderstanding regarding the specifics of a claim are quickly agreed.

Chart 5

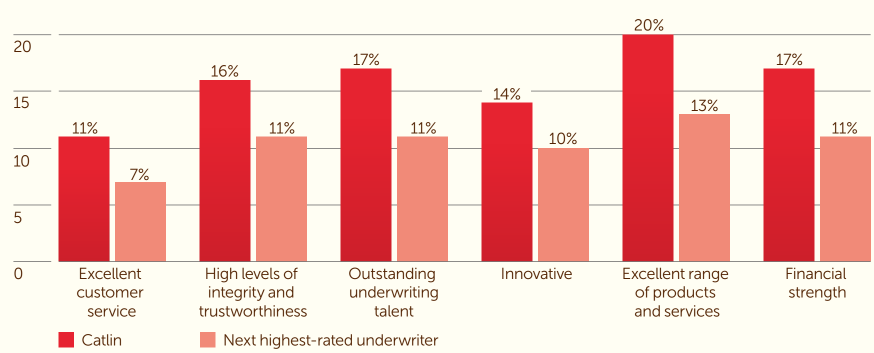
London underwriters' customer service performance (%)



Percentage of surveyed brokers associating an underwriter with 'excellent customer service'
Source: The Gracechurch London Insurers Report 2014

Chart 6

Leading London underwriters for service attributes (%)



Percentage of surveyed brokers associating an underwriter with a particular service attirbute
Source: The Gracechurch London Insurers Report 2014

The Catlin Culture

The Group utilises a variety of measures to evaluate its claims performance, including standardised reports received directly from brokerages, surveys conducted by third parties, and anecdotal feedback from individual brokers and clients.

Catlin for the past six years has been regarded by claims brokers as the London market leader in terms of claims service, as measured by the Gracechurch London Claims Report conducted by Gracechurch Consulting. While similar claims performance surveys are not yet available in other markets, the Group is satisfied that a consistently high level of claims service is offered across its six underwriting hubs, and anecdotal evidence supports this belief. For example, the US hub in 2014 was rated as the top insurer for claims service by members of the American Council of Engineering Companies. It was the third time in four years that Catlin US had been ranked first in this survey.

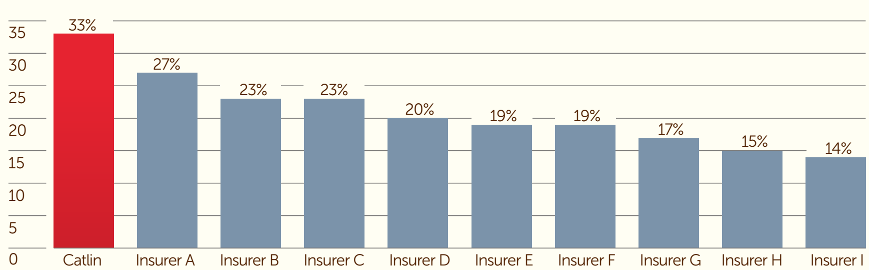
Catlin considers claims service so important that the performance of its London claims staff is one of the Group key performance indicators (see page 11).

Thirty-nine per cent of the brokers responding to the 2014 Gracechurch London Claims Report rated Catlin's claims service as 'excellent'; only 6 per cent rated the Group's service as poor. This net satisfaction level (excellent minus poor ratings) was the highest among the insurers surveyed (see Chart 7).

In addition, Catlin remained the London market insurer that brokers would most often recommend on the basis of claims service (see Chart 8).

Chart 7

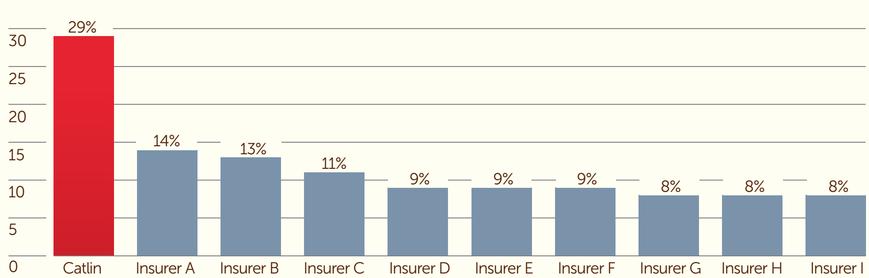
Claims service satisfaction among top ten insurers (%)



Percentage of surveyed brokers rating claims service as 'excellent' minus percentage rating service as 'poor'
Source: The Gracechurch London Market Claims Report 2014

Chart 8

Top ten insurers most recommended for claims service (%)



Percentage of brokers who would highly recommend an insurer based on quality of claims service
Source: The Gracechurch London Market Claims Report 2014

Community

An important part of the Catlin Culture is based on service to the communities in which the Group's offices are located. The Group participates in a broad range of activities to improve communities, and it encourages all employees to take an active part in such initiatives.

The focus of the Group's community programmes is directed towards charities, schools and education, and other programmes that support young people and their families. Through the Catlin Seaview Survey, the Group also aims to increase our awareness of the environment, particularly the oceans.

Catlin's community activities are co-ordinated at the corporate level by a Group Communities Committee, which includes employees from all underwriting hubs. The committee meets frequently to manage charitable contributions and community involvement programmes centrally and to monitor activities pursued by the six underwriting hubs. Each hub has its own communities committee, which is responsible for local charitable/community initiatives.

Charitable donations

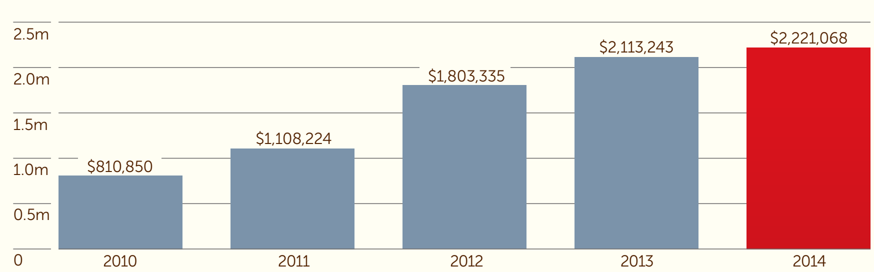
During 2014 Catlin's charitable giving increased by more than 5 per cent to US$2.2 million (2013: US$2.1 million). Catlin has increased its annual charitable donations by 17.4 per cent over the past five years (see Chart 9).

Give As You Earn

In the United Kingdom Catlin offers employees a 'Give As You Earn' scheme, under which employees authorise the Group to deduct from their monthly salaries contributions to their chosen charity, which are matched by the Group up to a maximum of £120 per employee per annum.

Chart 9

Charitable contributions (US$)



Fund matching scheme

The Group operates a fund matching scheme which acknowledges the voluntary work and fund-raising efforts of its employees. The scheme is designed to recognise money raised through employees' personal endeavours such as running in marathons or organising special events.

Under the scheme Catlin will donate, usually up to a maximum of £500 per employee per annum (or an equivalent amount in another currency), in support of any employee fund-raising activity and in recognition of volunteering commitments. In each case the award will be made payable directly to the charity chosen by the employee.

Community activities

While each of the six underwriting hubs carries out their own community programmes (see page 68), the bulk of Catlin's community activities are based in the United Kingdom, where the largest number of Catlin employees work, and in Bermuda, where the Group is headquartered.

In the United Kingdom, Catlin employees chose First Step as the London hub's annual charity partner for 2014. First Step is a registered charity based in the London Borough of Havering that provides support to very young children with special needs and/or disabilities and their families. During the year, Catlin and its London-based employees participated in a variety of fund-raising activities to benefit First Step. These efforts resulted in more than £100,000 in contributions to First Step.

Catlin's London hub also continues its longstanding sponsorship of the Sick Children's Trust, a UK-based charity which provides support and accommodation to the families of children undergoing hospital treatment. Catlin Group Chief Executive Stephen Catlin has served as Chairman of the Sick Children's Trust for more than a decade, and other Catlin executives contribute time to the charity. In addition, the London hub continues to sponsor St Paul's Way Trust School, including the participation of a senior Catlin manager as both a school trustee and a member of the governing body.

Catlin Bermuda in 2014 was awarded the Bermuda Insurance Institute's Corporate Social Responsibility Award. The Institute commended the seriousness with which Catlin Bermuda takes its community obligations and its focus on youth, education and the environment. The citation highlighted Catlin Bermuda's role as the title sponsor of the island's largest fund-raising event, the Catlin End to End, which last year raised more than US$250,000 for local charities. The award also cited Catlin Bermuda's innovative 'Kids on the Reef' programme through which hundreds of Bermudian children have received the opportunity to explore first-hand the island's offshore coral reefs in alignment with the Catlin Seaview Survey.

Catlin Education

Apart from its partnerships with individual schools, Catlin also sponsors specialised educational programmes for young people focusing on the oceans.

Catlin Education brings together the findings and experiences of the Catlin Seaview Survey and the Catlin Arctic Survey through specially designed learning materials that are accessible for both teachers and students of all ages.

A website (www.CatlinEducation.com) acts as a portal, showcasing the elements of the curriculum-led Oceans Education programme for school-age children and the more informal and entertaining Catlin Explorers programme that is intended for younger kids.

The Oceans Education programme, which covers both 'Coral Oceans' and 'Frozen Oceans' subjects, are targeted for students aged 7–16 studying science and geography. The eight lesson books currently available contain 51 lessons plans, 204 activity and fact sheets, and 50 supporting resource materials that can be downloaded by teachers and pupils. The materials have been used by an estimated 1 million students worldwide.

The Catlin Explorers programme, which was originally developed for the children of Catlin employees but is now publicly available, consists of fun activities designed to teach younger children about the importance of the earth's oceans as well as basic information about climate change. These materials are available in English, German and French.

Besides the web-based materials freely available to teachers worldwide, programmes were held in the United Kingdom and the United States during 2014 to train teachers to use the Oceans Education curriculum.

Catlin Serves the Community Worldwide

Each Catlin underwriting hub participates in a variety of community activities and charitable giving initiatives. Here are examples of the 2014 programme sponsored by the hubs.

Asia-Pacific

Catlin's Singapore office has become more creative in its support for the Eden School, a local institution specialising in education for autistic children from ages 7–18.

Employees were impressed with the quality of art work produced by students participating in the school's Art Talent Development Club Program, as well as the passion and dedication shown by their teacher. This led to an exhibition in the Catlin Singapore office of paintings created by four students who were inspired by images from the Catlin Arctic Survey and the Catlin Seaview Survey websites.

While Catlin has also supported the school through the construction of the school's two sensory parks, vocational classrooms and iPad labs, the Catlin-Eden Art Project helped provide students with a sense of achievement by displaying their painting in a public forum.

Bermuda

For the past seven years, Catlin Bermuda has participated in the Catlin-Cedarbridge Mentor Programme, through which six to eight high-achieving male students at Cedarbridge Academy take part in a structured personal development programme during their final two years of secondary education. As part of the programme, each student is assigned a Catlin employee as a mentor.

Several of the participants over the years have been chosen as the Head Boy, Deputy Head Boy or Valedictorian of their graduating classes or have represented Bermuda at events such as the Schools World Debate Tournament. Many of these students have gone on to university, with several receiving prestigious Bermuda scholarships to assist with their tuition.

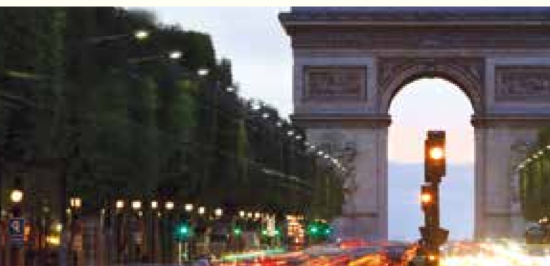
Canada

An adventurous group of employees from Catlin's Toronto office climbed 64 metres to the top of the WindShare/Toronto Hydro wind turbine.

The climb was part of the third annual Climb the Turbine Fundraiser organised by TREC Education, a registered charity established in 2010 which turns its vision of 'a world powered by renewable energy' into reality by sparking innovation among Canadian youth through engaging educational programmes.

"It is a genuine honour and privilege to be supported by the Catlin Group. Working alongside its upbeat team, together we have successfully delivered charitable projects that have meaningfully touched the lives of tens of thousands of the UK's most deserving families and children."

David Goodfellow
The Kindness Offensive



Europe

Catlin Europe's charity partner during 2014 was the 'Stiftung Kind und Autismus' Foundation, a registered charity based in Urdorf, near Zurich, that provides specialist education and individual support to autistic children, including a dedicated school with part-time residential care.

Catlin's staff raised more than €15,000 on behalf of the charity through donations and various fund-raising activities. At Christmas, for example, the staff of the Catlin Zurich office purchased presents for the children, wrapped them and delivered them to be presented at a light festival held at the school. The gifts included toys, a trampoline and even a sofa.

London

The Kindness Offensive ('TKO') is a group whose goal is to work with volunteers and corporate sponsors to do good work while having fun. Over the past six years, TKO has donated more than £6 million in toys and other goods to needy individuals.

Catlin first worked with TKO in 2012, and last year the London hub joined forces with the group to sponsor its annual Christmas toy giveaway. More than 300 Catlin volunteers joined employees of other companies for a day to wrap presents destined for children at hospitals, orphanages and other charities (see page 59).

US

Employees in Catlin's New York office worked with the local branch of The Covenant House, a national homeless shelter for teenagers, to conduct mock interviews with homeless teens as part of a job readiness programme.

The goal was not only to sharpen the interview skills of often disadvantaged young men and women seeking employment, but to allow them to share work and life experiences with professionals and receive constructive feedback.

The Catlin Culture

Environmental

Catlin's sponsorship of the Catlin Arctic Survey and the Catlin Seaview Survey has raised the Group's awareness of the importance of environmental issues. The Group strives to balance its carbon footprint with the business requirements necessitated by its widening international focus and its increasing premium volume. An insurance company such as Catlin has a more modest carbon footprint than many manufacturing or retailing companies with similar revenue bases. However, Catlin firmly believes in the necessity of careful emissions management. The Group's focus on sustainability makes good business sense, leading to potential cost savings and greater efficiencies.

Sustainability Committee

The Group has established a Sustainability Committee to oversee the implementation of the sustainability aspects of Catlin's corporate responsibility programme. The Sustainability Committee is chaired by the Group Chief Operating Officer, and it reports to the Group Executive Committee, which retains overall executive responsibility for environmental matters.

The Sustainability Committee's membership includes the Group's Sustainability Director and the Head of Corporate Responsibility. It also includes a senior representative from each of Catlin's six underwriting hubs, as well as representatives from the Group's IT and Property and Facilities functions.

Among the committee's objectives are to:

- review Catlin's environmental strategy to ensure it fully reflects the Group's business strategy, corporate responsibility strategy and associated policies, and to make appropriate recommendations to the Group Executive Committee;
- carry out an annual review of the Group's implementation of policies on the management of carbon emissions;
- propose targets for reducing carbon emissions;
- seek new ways for the Group to make a positive impact on the environment; and
- motivate and engage the Group's global workforce with regards to environmental responsibility.

Table 10

Catlin's carbon footprint

	2013 footprint (tCO_2e)	2012 footprint (tCO_2e)	% change
Scope 1 emissions (includes fossil fuels and refrigerants)	675	750	(10%)
Scope 2 emissions (includes electricity)	6,378	6,206	3%
Subtotal	7,053	6,956	1%
Scope 3 emissions (includes air travel)	18,570	12,511	48%
Total	25,753	19,467	32%
Intensity measurements			
Emissions per unit floor area ($kgCO_2e/m^2$)	462	403	15%
Emissions per employee ($kgCO_2e$/FTE)	11,275	9,390	20%

Assessment parameters	
Baseline year	2010
Boundary summary	All entities and all facilities owned are included, excluding data centres and networking operations
Consistency with financial statements	Emission reporting is one year in arrears
Assessment methodology	In line with World Business Council for Sustainable Development Greenhouse Gas Protocol
Independent assurance/verification	Limited assurance provided by SKM Enviros Ltd relating to all Scope 1, 2 and 3 GHG emissions data

In addition to the committee, a Core Sustainability Group – which includes members of the Group's Property and Facilities department – is responsible for administering the Group's sustainability strategy, engaging stakeholders to deliver projects and meet strategic targets, and develop new ideas for consideration by the committee.

Carbon footprint

The Group commissions a recognised third-party carbon auditing firm to verify its carbon footprint. Data is collected from all of Catlin's offices across more than 20 countries. Catlin reports carbon footprint data a year in arrears to allow for accurate gathering and verification of data from each office.

The measurement, based upon the Greenhouse Gas Protocol and Carbon Trust guidance, includes 'Scope 1' (direct emissions from sources owned or operated by the Group, including fossil fuel and refrigerant usage) and 'Scope 2' (indirect emissions attributable to the Group due to consumption of purchased electricity) emissions. Catlin also includes in its carbon disclosures 'Scope 3' emissions (which include business travel by air and rail, paper, water and waste). These disclosures are made with respect to the requirements of The Greenhouse Gas Emissions (Directors' Reports) Regulations 2013.

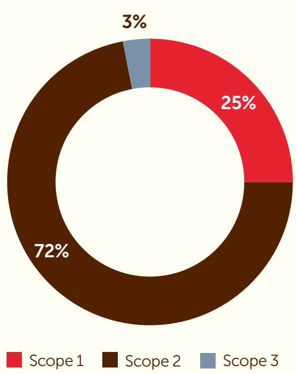
Catlin's total carbon footprint increased by 32 per cent on a like-for-like basis in 2013. The Group's carbon footprint is summarised in Table 10.

The increase in the Group's carbon footprint during 2013 was primarily attributable to the following factors:

- A change in the methodology used by the Carbon Disclosure Project in 2013 for measuring carbon emissions from flights that now accounts for the class of travel used for each flight. Previously, emissions were measured on a uniform basis, regardless of the class of travel used. On a like-for-like basis, air miles travelled increased by 37 per cent over the previous year and $kgCO_2e$ increased by 49 per cent.
- A 52 per cent increase in global travel due to the launch of the firm's Global Strategic Sourcing initiative which created the shared service centre in Wroclaw, Poland, and expanded existing centres in Kuala Lumpur and Scottsdale, Arizona. Also contributing to the increase in air travel was the finalisation of a multi-year project to replace the Group's general ledger system.
- A 6 per cent increase in global electricity consumption due to continued company growth.

During the period, the Group's gross floor area increased by 15 per cent and full-time employees increased by 10 per cent. A breakdown of the Group's 2013 carbon footprint is analysed in Chart 11.

Breakdown of carbon footprint Chart 11



Carbon management activities
Catlin has adopted a proactive stance towards managing the Group's carbon emissions from its offices and activities. Although Catlin leases all of its office space and as such does not have complete control over the environmental efficiency of its offices, the Group strives to minimise emissions from offices wherever feasible. Catlin strives to locate offices in environmentally efficient premises and works with landlords to procure 'green leases' that guarantee some commitment for reducing a building's carbon emissions, the procurement of renewable energy, if possible, and improved recycling practices.

While recognising that significant amounts of air travel are necessary in an international business, Catlin actively encourages the use of video conferencing wherever practical. The Company has installed video conferencing capabilities throughout its offices and strives to make this technology more user-friendly for employees. During 2013 the Group implemented a travel policy which requires all air travel requests to be evaluated against alternative options, including video conferencing and rail travel.

Engaging employees in emissions reduction is fundamental in achieving the best possible results. Catlin issues regular environmental awareness updates through the Group's intranet and holds frequent competitions to increase employee awareness.

Sustainability targets Table 12

	Target to be achieved by 2019	Progress/comments
Carbon footprint	20 per cent reduction in Scope 1 and 2 emissions per m^2 of floor area	The Group remains on target to achieve planned reductions by 2019
Built environment	85 per cent of employees globally to be working in a LEED[1]-certified office space	More than 65 per cent of staff currently work in an office either with or undergoing LEED certification LEED offices typically: • consume 40 per cent less energy and water than non-LEED buildings; • have CO_2 emissions that are 33 per cent to 39 per cent lower than non-LEED buildings
Waste/recycling	Install recycling facilities in 80 per cent of offices globally	59 per cent of offices currently have recycling facilities (accounting for approximately 96 per cent of waste generated globally)
	Send less than 1 per cent of waste to landfill in the UK	Currently less than 5 per cent of waste sent to landfill in the UK
Energy	50 per cent of energy consumed to be derived from 'green' sources	Green energy currently accounts for 35 per cent of global carbon footprint
Equipment	All new equipment must be Energy Star rated	All new equipment purchased is Energy Star rated
Paper	All paper to be 100 per cent recycled content or FSC-certified	Goal already achieved in London hub; targets introduced for other hubs; paperless communication encouraged wherever possible

1 Leadership in Energy and Environmental Design (LEED) is an international building certification created by the US Green Building Council in 1994. LEED provides building owners and operators with a framework for identifying and implementing practical and measurable green building design, construction, operations and maintenance solutions

Sustainability strategy
At the end of 2013 the Group adopted a comprehensive sustainability strategy, which includes a revised environmental policy statement (see page 72), specific targets to minimise the Group's carbon footprint and activities to increase the visibility of the sustainability action being implemented. As part of the strategy, the Group has set challenging five-year targets that cover several areas, summarised in Table 12.

The total investment required to meet the targets is estimated at US$1.3 million. Savings exceeded spending at the beginning of 2014. The Group estimates total annual savings of US$2.3 million by 2019 if all targets are met.

Carbon offsetting
Catlin makes contributions to projects that result in reduced emissions greenhouse gases, to offset emissions from air travel by Group employees. Carbon offsetting is utilised as a final method to reduce global emissions, after reduction programmes have been implemented. Catlin has offset carbon emissions from the air travel of UK-based employees since 2007 and employees worldwide since 2010. In total, Catlin has offset the equivalent of 49,963 tCO_2e at a cost of more than US$683,000, benefiting various projects.

The Catlin Culture

The offset credits purchased by Catlin since 2012 have been used to help finance the Kasigau Corridor REDD+ (Reduced Emissions from Deforestation and Degradation) project in Kenya. The project reduces carbon dioxide emissions by protecting natural carbon sinks that, in the absence of the project, would have been deforested and/or degraded for subsistence agriculture. Situated in the Taita Taveta District of Kenya, between the Tsavo East and Tsavo West National Parks, the Kasigau Corridor project avoids unplanned deforestation and degradation of tropical forests. Catlin renewed its commitment to the Kasigau project for a further three years in December 2014.

Business-related sustainability activities

The sustainability strategy also calls for Catlin to develop products and services linked to sustainable projects and to take a leadership position in environmental matters.

The Group already aims to link its products to environmentally responsible behaviour when possible. The UK Motor underwriting team, for example, works with fleet operators to reduce accident frequency and severity through driver training and the increasing use of telematics to measure driver performance. Typically, these programmes can lead to savings in fuel cost of approximately 10 per cent. In addition, Catlin US underwrites professional liability insurance for architects and engineers that provides premium credits for work associated with sustainable or 'green' projects. These projects tend to involve greater communication and earlier identification of potential problem issues.

Catlin's Emerging Risks Committee examines new and developing risks, both worldwide and at a local level. The committee and its working groups are made up of senior personnel from key Group functions; the committee is chaired by the Group's Chief Science Officer. The analysis carried out by the committee seeks to identify potential threats to the Group's business, analyse strategies that can be employed to manage those threats and identify potential business opportunities, such as new products that the Group may offer to clients.

Carbon Disclosure Project

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

Based on 2013 data, Catlin achieved a 2013 CDP disclosure score of 86, the highest score the Group has achieved to date. Catlin remains a leader amongst its peer group in the UK insurance industry.

In addition, Catlin's US operations receive high ratings in a survey of US insurers' response to climate risks. The survey conducted by Ceres, a non-profit organisation advocating for sustainability leadership, ranked Catlin among a small number of insurers as a 'leader' in climate risk governance, climate change modelling and analytics, and climate change disclosure and reporting.

The survey report stated: "We are especially pleased with the leadership practices that key property and casualty companies – including The Hartford, Catlin, Hanover, the XL Group and Swiss Re – are using in assessing and protecting themselves and their clients from climate change risks."

ClimateWise

Catlin participates in ClimateWise (www.climatewise.org.uk), a collaborative insurance initiative through which members aim to work together to respond to the risks and opportunities presented by climate change.

ClimateWise participants are required to report annually on their compliance with a set of principles to reduce society's long-term risk from climate change. Catlin, along with other companies with operations at Lloyd's, reports jointly through Lloyd's. Information about the Lloyd's market's participation in ClimateWise is available at: www.lloyds.com/Lloyds/Corporate-Responsibility/Environment/ClimateWise/Our-progress.

Catlin Group Limited Environmental Policy Statement

Catlin Group Limited is an international specialist property and casualty insurer and reinsurer with more than 50 offices in 25 countries. Catlin understands its duty to the environment and endeavours to improve and minimise its environmental impact, whilst working with its partners and other counterparties to embrace a more sustainable future.

In recognition of the serious implications that climate change and other environmental risks may pose for the insurance industry, its policyholders and all of society, Catlin has developed a comprehensive sustainability strategy that drives sustainability into all areas of the business.

As part of our corporate responsibility strategy, Catlin has consistently looked for innovative and creative ways to address environmental sustainability throughout all aspects of its operational, business and marketplace activities. Since 2009, the Group has sponsored scientific projects, including the Catlin Arctic Survey, the Catlin Seaview Survey and the Catlin Global Reef Record. During this time, Catlin-sponsored activities have produced a wealth of scientific data, enabling scientists to make more reliable conclusions about the potential impact of climate change on the environment,

Catlin is committed to the continuous improvement of its sustainability performance and has set specific objectives and targets to:

- measure, monitor and reduce its global carbon footprint:
- increase the number of environmentally certified work spaces;
- expand the sustainable procurement of energy and equipment;
- enhance recycling schemes and reduce waste;
- develop new business streams that reflect sustainability principles and values;
- engage employees in sustainability activities and targets;
- continue to sponsor high-impact climate change and scientific research such as the Catlin Seaview Survey;
- continue to offset Catlin's carbon emissions through the purchase of verified carbon credits that support environment & community development values;
- continue to actively engage with the insurance industry through ClimateWise;
- report environmental impacts through the appropriate forums, such as the Carbon Disclosure Project; and
- adopt and meet all relevant legislative requirements.

Catlin regularly reviews its sustainability record at meetings of the Group Sustainability Committee, which reports directly to the Group Executive Committee. The Group publicly reports on its environmental and sustainability practices on an annual basis, showing Catlin's commitment to responsible governance and transparency.

Catlin Seaview Survey

The earth's coral reefs are a critical component of our environment. We must learn more about how reefs are changing to accurately assess our planet's future.

The Facts and Figures[1]

Entering its fourth year, the Catlin Seaview Survey is continuing its mission to study the world's coral reefs, utilising cutting-edge underwater digital photography to produce stunning panoramic images which can be studied by scientists worldwide.

Catlin sponsors ocean science research because the Group believes that insurers should take a leadership role in helping scientists learn more about the risks our clients will face in the future. The images and data collected by the Catlin Seaview Survey are freely available to researchers online through the Catlin Global Reef Record.

CatlinSeaviewSurvey.com
CatlinGlobalReefRecord.org

22
Countries
The Survey team has visited coral reefs in 22 countries.

662
Distance surveyed
In the past three years, 662 kilometres of reefs have been surveyed.

500,000
Panoramas
More than 500,000 panoramic images have been taken.

30
Efficiency
The Survey's purpose-built SVII camera is 30 times more efficient than previous survey methods.

8,000
Specimens
More than 8,000 coral specimens have been collected; 5,000 are from the mesophotic zone.

3.7m
Google+
More than 3.5 million people have followed the Survey on the Google+ social media network.

1 Figures at 31 December 2014

Catlin Seaview Survey expeditions 2012–2015

The 2014 Expeditions

The Catlin Seaview Survey focused on the Coral Triangle of Southeast Asia in 2014, but also studied reefs in North and South America and Australia.

2014 was another productive year for the Catlin Seaview Survey. The main activity took place in the Coral Triangle, a global centre of marine biodiversity located in Southeast Asia. The Survey completed separate expeditions to coral reefs in the Philippines, Solomon Islands, East Timor, and Indonesia.

The reefs in the Coral Triangle are not only pristine and breathtakingly beautiful, but they may also represent the future for reefs. Nearly 40 per cent of the world's coral reefs have been lost to bleaching and other damage, and scientists fear that by mid-century the Coral Triangle could potentially be the only area on the planet where coral reefs still exist. The Survey's scientists are using the images and other data collected to learn why these reefs are so resilient to the damage suffered by reefs elsewhere.

Another important expedition undertaken by the Survey during 2014 was conducted in collaboration with the US National Oceanographic and Atmospheric Administration ('NOAA'). This expedition, to the reefs in the Florida Keys National Marine Sanctuary, was used as a training mission to instruct NOAA staff how to use the specialised technology developed by the Catlin Seaview Survey. This knowledge will allow NOAA to use these innovative techniques when conducting research in other marine sanctuaries.

The Survey in 2014 also re-surveyed sections of the Great Barrier Reef first studied by the Catlin Seaview Survey in 2012. Both the Shallow Reef and Deep Reef teams for the first time revisited sites already photographed to monitor changes to the reefs over time.

One of the objectives was to examine the impact of severe Tropical Cyclone Ita, which struck the region in April 2014. Both the Shallow and Deep Reef teams surveyed impacts from the storm; they found that some parts of the reef suffered extensive damage, while others showed no evidence of disturbance. The data is now being analysed to draw conclusions.

The Survey also visited the Fernando de Noronha Archipelago and Rocas Atoll off the coast of Brazil. This area, which has World Heritage status, continues the Survey's mission to collect data from the world's most important marine areas in partnership with UNESCO.

The 2015 Expeditions

The Catlin Seaview Survey during 2015 is exploring one of the most pristine coral reefs on the planet, as well as one of the most endangered.

The Indian Ocean is the centre of the Catlin Seaview Survey's activities during 2015.

The Survey's first major expedition of the year will explore the pristine reefs of the Chagos Archipelago. Due to the absence of human population and its remote location, Chagos is believed to one of the healthiest reef systems in the world. These reefs have so far been resilient to climate change and environmental disruptions. Scientists hope the information they gather could lead to solutions to restore damaged reefs elsewhere.

The Survey will also investigate the reefs of the Maldives, a country on the front line of climate change. Less than 1,000 kilometres away from Chagos, these reefs suffered extensive coral bleaching damage in 1998 due to an El Niño climatic event. The Catlin Seaview Survey team will investigate the impacts of human and natural pressures on these reef systems and how these reefs have changed over time.

Localised warming of the oceans could have profound bleaching consequences for coral reefs around the world. The Catlin Seaview Survey is ready to travel to impacted reefs during 2015 to monitor first-hand bleaching events as they occur.

Partners

The Catlin Seaview Survey's primary science partner is the Global Change Institute at the University of Queensland. Other science partners include the International Union for Conservation of Nature, the US National Oceanic and Atmospheric Administration, the Scripps Institution of Oceanography, UNESCO and the Sydney Institute of Marine Science,

Operational support for the Survey is provided by Underwater Earth, a Sydney-based non-profit organisation whose mission is to reveal the wonders of the ocean to a wide population.

Why are coral reefs important?

Coral reefs serve as an early warning system for broader changes in our oceans brought about by climate change and other factors. Studying coral reefs therefore gives society more information about the future of our planet.

Coral reefs are valuable in other ways:

- Coral reefs are a vital source of food and livelihood for millions of people, particularly through tourism.
- Reefs play an important role in pharmaceutical research; creatures found in reef systems are used to develop medicines to treat cancer, arthritis, viruses and heart disease.
- Coral reefs produce economic value amounting to at least US$375 million annually.
- Reefs provide coastal protection around the world and can dissipate 90 per cent of energy from waves.

Strategic Report

Natural History Museum Partnership

Catlin and London's Natural History Museum are helping the public find out why coral reefs are one of the most important habitats for life on Earth.

'Coral Reefs: Secret Cities of the Sea' will celebrate the extraordinary beauty of reefs by exploring the diverse variety of sea creatures which make their homes among living corals. The exhibition will display the museum's collection of ancient and modern corals, as well as the stunning imagery and samples collected by the Catlin Seaview Survey.

The exhibition, which will also feature a live coral reef and allow visitors to virtually dive with the Catlin Seaview Survey, will open on 27 March 2015.

NHM.ac.uk

Financial Review

Consolidated Results of Operations (US$m) — Table 1

	2014	2013	% change
Revenues			
Gross premiums written	**5,966**	5,309	12%
Reinsurance premiums ceded	**(1,621)**	(1,257)	29%
Net premiums written	**4,345**	4,052	7%
Change in net unearned premiums	**(185)**	(104)	78%
Net premiums earned	**4,160**	3,948	5%
Net investment return	**226**	124	82%
Other income	**14**	11	27%
Total revenues	**4,400**	4,083	8%
Expenses			
Losses and loss expenses	**2,183**	2,063	6%
Policy acquisition costs	**986**	882	12%
Administrative and other expenses	**717**	661	8%
Financing costs	**17**	19	(11%)
Net losses on foreign currency	**9**	26	(65%)
Total expenses	**3,912**	3,651	7%
Net income before income tax	**488**	432	13%
Income tax (expense)/benefit	**(26)**	4	N/M
Net income	**462**	436	6%
Non-controlling preferred stock dividend	**(44)**	(44)	–
Net income available to common stockholders	**418**	392	7%

	2014	2013
Loss ratio[1]	**52.5%**	52.3%
Expense ratio[2]	**34.3%**	33.3%
Combined ratio[3]	**86.8%**	85.6%
Tax rate[4]	**5.3%**	(0.9%)
Return on net tangible assets[5]	**16.3%**	17.0%
Return on equity[6]	**13.1%**	13.4%
Total investment return[7]	**2.6%**	1.5%

N/M Not meaningful
1 Calculated as losses and loss expenses divided by net premiums earned
2 Calculated as the total of policy acquisition costs and expenses relating to underwriting divided by net premiums earned; the expense ratio excludes performance-related compensation and certain Group corporate costs unrelated to underwriting
3 Total of loss ratio plus expense ratio
4 Calculated as income tax expense divided by net income before income tax
5 Calculated as net income available to common stockholders divided by net tangible assets (opening common stockholders' equity less intangible assets and associated deferred tax)
6 Calculated as net income available to common stockholders divided by opening common stockholders' equity
7 Calculated as total investment return divided by average invested assets during the year

Catlin's income before tax amounted to US$488 million in 2014, a 13 per cent increase from US$432 million in the previous year.

The result includes a net underwriting contribution of US$991 million (2013: US$1.00 billion), underpinned by a stable loss ratio of 52.5 per cent (2013: 52.3 per cent). The Group produced a strong underwriting performance in 2014 despite the impact of US$85 million in catastrophe losses and US$107 million large single risk losses, net of reinsurance and reinstatement premiums.

Another key driver of the income before tax is total investment return. The Group produced total investment return of 2.6 per cent (2013: 1.5 per cent). Total investment return amounted to US$241 million (2013: US$135 million), which was above the Group's expectations. This investment return includes a US$31 million valuation gain on loans made to Box Innovation Group Limited, for which Catlin agreed to the sale of its stake in December 2014.

Consolidated results of operations

An analysis of net income before income tax is shown in Table 2 on page 79.

Table 2

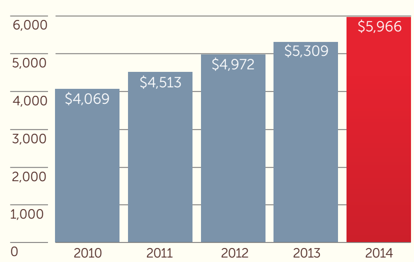
Net income before income tax (US$m)	**2014**	2013	% change
Net underwriting contribution	**991**	1,003	(1%)
Total investment return	**241**	135	79%
Administrative expenses relating to underwriting	**(441)**	(435)	1%
Performance related compensation	**(183)**	(150)	22%
Other expenses	**(93)**	(76)	22%
Financing and other	**(18)**	(19)	(5%)
Foreign exchange	**(9)**	(26)	(65%)
Net income before income tax	**488**	432	13%

The following commentary compares the Group's 2014 financial results with the results for 2013.

Gross premiums written
Gross premiums written increased by 12 per cent to US$5.97 billion (2013: US$5.31 billion) (see Chart 3).

Chart 3

Growth in gross premiums written (US$m)



Aggregate gross premiums written outside the London underwriting hub (US, Bermuda, Europe, Asia-Pacific and Canada hubs) increased by 13 per cent to US$3.20 billion (2013: US$2.84 billion). These underwriting hubs accounted for 54 per cent of the total gross premiums written by the Group (2013: 53 per cent).

Rates decreased during 2014 for all product groups except Casualty. Average weighted premium rates decreased by 2.9 per cent across the entire portfolio. Average weighted premium rates for catastrophe-exposed classes of business decreased by 6.1 per cent, while rates for non-catastrophe classes decreased by 0.7 per cent.

Reinsurance premiums ceded
Reinsurance premiums ceded increased by 29 per cent to US$1.62 billion (2013: US$1.26 billion). The percentage of gross premiums written ceded to reinsurers increased to 27 per cent (2013: 24 per cent). This reflects increased amounts ceded during 2014 to third-party capital providers, including Special Purpose Syndicates at Lloyd's ('SPS') and participants in the Portfolio Participation Vehicle ('PPV'), both of which provide whole-account quota share reinsurance to the Group's various underwriting platforms.

In any given year, the Group may benefit from managing agent's fees, overriding commissions and profit commissions (if applicable) with respect to an SPS or the PPV. These amounts are usually recognised during the calendar year for which the SPS/PPV accepts risk and for two additional years.

Total commissions and fees from the SPS and PPV contracts recognised in 2014 amounted to US$66 million (2013: US$28 million).

Net premiums earned
Net premiums earned increased by 5 per cent to US$4.16 billion (2013: US$3.95 billion). Growth in net premiums earned was lower than the growth in gross premiums written, in line with the Group's expectations, largely due to the increased amounts ceded to third-party capital providers. In addition, a greater volume of business written late in the year during 2014, as compared with 2013, also contributed to the gap between the growth in gross premiums written and net premiums earned.

Losses and loss expenses
The Group's loss ratio remained stable at 52.5 per cent during 2014 (2013: 52.3 per cent).

The Group incurred catastrophe losses in 2014 which totalled US$85 million, net of reinsurance and reinstatements (2013: US$156 million). Included among the 2014 catastrophe events were the Chilean earthquake in April; the European hailstorms in June; Hurricane Odile, which caused damage in Mexico's Baja Peninsula in September; Cyclone Hudhud, which swept across eastern India and Nepal in October; and the severe Brisbane hailstorms in November.

The components of the Group's loss ratio in 2014 and 2013 are analysed in Table 4.

Table 4

Analysis of loss ratio (%)	**2014**	2013
Attritional loss ratio	**50.6%**	50.1%
Catastrophe losses	**2.3%**	4.3%
Large single-risk losses	**2.5%**	2.1%
Release of reserves	**(2.9%)**	(4.2%)
Reported loss ratio	**52.5%**	52.3%

The large single-risk losses sustained by the Group in 2014 increased the loss ratio by 2.5 percentage points (2013: 2.1 percentage points).

The Group released US$120 million from prior-year loss reserves during 2014, an amount equal to 2 per cent of opening reserves (2013: US$167 million or 3 per cent). The level of reserve releases made annually has been broadly consistent since the Group's initial public offering in 2004.

Net underwriting contribution
The 2014 net underwriting contribution of US$991 million represents a 1 per cent decrease (2013: US$1.00 billion). Of the total underwriting contribution, 53 per cent was produced by the London underwriting hub; 47 per cent was produced by the Group's other underwriting hubs (2013: 52 per cent London, 48 per cent other).

Financial Review

Table 5

Analysis of expense ratio (US$m and %)

	2014	Components of expense ratio	2013	Components of expense ratio
Policy acquisition costs	**986**	**23.7%**	882	22.3%
Administrative expenses				
Relating to underwriting	**441**	**10.6%**	435	11.0%
Performance-related compensation	**183**	**–**	150	–
Other expenses	**93**	**–**	76	–
Administrative and other expenses	**717**	**10.6%**	661	11.0%
	1,703	**34.3%**	1,543	33.3%

Table 6

Total investment return (US$m)

	2014	2013
Total investments and cash as at 31 December	**9,275**	9,217
Investment income	**134**	127
Net gains/(losses) on fixed maturities and short-term investments	**30**	(94)
Net gains on other invested assets	**77**	102
Total investment return	**241**	135
Investment expenses	**(15)**	(11)
Net investment return	**226**	124

Table 7

Tax contributions (US$m)

	2014	2013
Corporate income taxes	**94**	19
Employment and social security taxes[1]	**157**	154
Insurance premium taxes[2] and federal excise tax	**50**	56
Irrecoverable value-added taxes	**10**	10
	311	239

1 A portion of these contributions are taxes withheld from employees' pay
2 Insurance premium taxes are generally collected by the Group and paid to tax authorities

Policy acquisition costs, administrative and other expenses
The expense ratio amounted to 34.3 per cent (2013: 33.3 per cent). The components of the expense ratio and corporate expenses are analysed in Table 5.

The policy acquisition cost ratio increased to 23.7 per cent (2013: 22.3 per cent), primarily due to a reclassification of certain London underwriting hub acquisition costs which has no impact on profits. Administrative expenses represent 10.6 percentage points of the overall expense ratio (2013: 11.0 percentage points).

When calculating the expense ratio, Catlin excludes some corporate expenses such as profit-related bonuses, employee share compensation schemes and certain Group corporate costs to allow the expense and combined ratios to provide a closer representation of the costs of underwriting.

Total investment return
Total investment return amounted to 2.6 per cent (2013: 1.5 per cent). Table 6 summarises the total investment return during the year.

Net losses on foreign currency
Catlin reported a loss on foreign currency exchange amounting to US$9 million (2013: US$26 million). Catlin's reporting currency is US dollars, but it undertakes significant transactions in various currencies. Exchange rate movements during the year have resulted in the net exchange loss on these currency positions, due to the strengthening of the US dollar against all other major currencies. The loss on foreign exchange partly arises on the depreciation of foreign currency assets held in entities with a sterling functional currency. Gains or losses on translating the net assets of these entities into US dollars are recorded as other comprehensive income.

Financing costs
Financing costs amounted to US$17 million (2013: US$19 million). Financing costs comprise interest and other costs in respect of bank financing, together with the costs of subordinated debt. Dividends relating to the non-controlling preferred stock are treated as an appropriation of net income and are not included in financing costs.

Income tax
The Group's effective tax rate was 5.3 per cent (2013: negative 0.9 per cent).

The primary driver of the effective tax rate continues to be the jurisdiction of the underwriting entities in which profits and losses arise.

The Group's total contributions to tax authorities in the various jurisdictions in which it operates amounted to US$311 million in 2014 (2013: US$239 million). A breakdown of these contributions is shown in Table 7.

More than half of the tax contributions by the Group during 2014 and 2013 were payable to UK tax authorities.

Net income available to common stockholders
After payment of dividends amounting to US$44 million to holders of Catlin Bermuda's non-cumulative perpetual preferred shares (2013: US$44 million), net income available to common stockholders increased by 7 per cent to US$418 million (2013: US$392 million). The return on net tangible assets was 16.3 per cent (2013: 17.0 per cent); the return on equity was 13.1 per cent (2013: 13.4 per cent).

Comprehensive income to common stockholders amounted to US$375 million (2013: US$386 million) and is analysed in Table 8.

Statements of comprehensive income (US$m) — Table 8

	2014	2013
Net income to common stockholders	**418**	392
Other comprehensive income/(loss)		
Translation adjustments	**(44)**	(6)
Defined benefit pension plan	**1**	–
Total other comprehensive loss	**(43)**	(6)
Comprehensive income to common stockholders	**375**	386

Summary of Consolidated Balance Sheets (US$m) — Table 9

	2014	2013	% change
Investments and cash	**9,275**	9,217	1%
Intangible assets and goodwill	**720**	720	–
Premiums and other receivables	**2,004**	1,771	13%
Reinsurance recoverable	**1,705**	1,480	15%
Deferred policy acquisition costs	**526**	490	7%
Other assets	**1,117**	842	33%
Loss reserves	**(6,705)**	(6,709)	–
Unearned premiums	**(3,062)**	(2,728)	12%
Subordinated debt	**(90)**	(93)	(3%)
Reinsurance payable	**(1,069)**	(729)	47%
Other liabilities	**(429)**	(478)	(10%)
Stockholders' equity	**3,992**	3,783	6%

Intangible assets and goodwill (US$m) — Table 10

	2014	2013
Purchased Lloyd's syndicate capacity	**634**	634
Surplus lines licenses	**6**	6
Goodwill on acquisition of Wellington Underwriting plc	**63**	63
Other goodwill	**17**	17
Intangible assets and goodwill	**720**	720
Associated deferred tax (included within other liabilities)	**(93)**	(92)
Intangible assets and goodwill net of deferred tax	**627**	628

The other comprehensive loss primarily comprises currency translation losses. These result from the portion of the Group's consolidated stockholders' equity represented by non-US dollar entities. A currency translation gain or loss arises when the net assets of these companies are translated at year-end into the Group's reporting currency, which is US dollars.

Balance sheet

A summary of the Consolidated Balance Sheets at 31 December 2014 and 2013 appears in Table 9.

The following paragraphs analyse the major items in the Consolidated Balance Sheets.

Investments and cash

Investments and cash increased by 1 per cent to US$9.28 billion (2013: US$9.22 billion). The increase is driven by cash flows from the Group's insurance operations and positive investment performance, offset by dividend payments and foreign exchange movements.

Intangible assets and goodwill

Table 10 sets out the principal components of intangible assets and goodwill.

Premiums and other receivables

Premiums and other receivables increased by 13 per cent to US$2.00 billion (2013: US$1.77 billion). This increase is driven by the growth in gross premiums written in 2014.

Reinsurance recoverable

Amounts receivable from reinsurers increased by 15 per cent to US$1.71 billion (2013: US$1.48 billion). Reinsurance recoverables represent 43 per cent of stockholders' equity (2013: 39 per cent). All current reinsurers have a 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.

Deferred policy acquisition costs

Deferred policy acquisition costs represented 23 per cent of unearned premiums, net of reinsurance, at 31 December 2014 (2013: 22 per cent).

Loss reserves

Gross loss reserves remain broadly unchanged in 2014 at US$6.70 billion (2013: US$6.71 billion). Approximately 95 per cent of net reserves relate to the 2004 and later accident years. The Group released US$120 million from prior year loss reserves during 2014, an amount equal to approximately 2 per cent of opening net reserves (2013: US$167 million or 3 per cent).

Unearned premiums

Unearned premiums increased by 12 per cent to US$3.06 billion (2013: US$2.73 billion). The increase in unearned premiums is the result of the growth in gross premiums written.

Notes payable and subordinated debt

Subordinated debt represented a total of US$68 million and €18 million in 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 were redeemable in 2011 at the earliest, qualify as 'Lower Tier II' capital under the rules of the Financial Services Authority in the UK.

There was no change to the subordinated debt during the year, and the balance sheet movement primarily represented foreign exchange revaluation.

Reinsurance payable

Reinsurance payable has increased by 47 per cent to US$1.07 billion (2013: US$729 million), primarily due to increased premiums ceded to the SPS and PPV, which are on a funds withheld basis.

Table 11

Change in total stockholders' equity (US$m)	2014	2013
Total stockholders' equity, 1 January	**3,783**	3,512
Net income	**462**	436
Other comprehensive loss	**(43)**	(6)
Common share dividends	**(186)**	(166)
Non-controlling preferred stock dividends	**(44)**	(44)
Treasury stock purchased	**(42)**	–
Stock compensation and other	**62**	51
Total stockholders' equity, 31 December	**3,992**	3,783

Table 12

Net tangible assets (US$m)	2014	2013
Total stockholders' equity	**3,992**	3,783
Less: attributable to non-controlling preferred stock	**(590)**	(590)
Total common stockholders' equity	**3,402**	3,193
Less: intangible assets, net of tax	**(627)**	(628)
Net tangible assets	**2,775**	2,565
Book value per share (US$)	**$9.47**	$8.92
Book value per share (sterling)	**£6.07**	£5.37
Net tangible assets per share (US$)	**$7.73**	$7.17
Net tangible assets per share (sterling)	**£4.95**	£4.32

Total stockholders' equity
Table 11 shows the principal components of the change in total stockholders' equity during 2014 and 2013:

In January 2007 Catlin Bermuda issued US$600 million of non-cumulative perpetual preferred shares. Dividends are paid semi-annually at a rate of 7.249 per cent up to 2017, at which time the dividends become payable at a floating rate of 2.975 per cent plus three-month LIBOR. These shares represent a capital instrument which is eligible as regulatory capital for Catlin Bermuda.

The amount attributable to non-controlling preferred stockholders is US$590 million such that the per-share amounts attributable to common shareholders are as set out in Table 12.

Loss Reserve Development

Catlin adopts a consistent reserving philosophy from year-to-year, taking into account the inherent uncertainties in estimating insurance liabilities.

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

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

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

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

The Group's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable and would be reflected in earnings in the period in which the estimates are changed.

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

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

Estimate of reinsurance recoveries

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

Development of reserves for losses and loss expenses

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

The loss reserve triangles that follow on pages 85 and 86 show how the estimates of ultimate net losses have developed over time. The development is attributable to actual payments made and to the re-estimate of the outstanding claims, including IBNR. The development is shown including and excluding certain major events as detailed in Table 2. Development over time of net paid claims is also shown, including and excluding these major events.

All historic premium and claim amounts have been restated using exchange rates as at 31 December 2014 for the Group's functional currencies to remove the distorting effect of changing rates of exchange as far as possible.

Wellington acquisition

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

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

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

Highlights

In aggregate, across most accident years, reserves have developed slightly better than the assessments made at the previous year-end. The reserves from the 2004 and prior accident years represent 4 per cent of the Group's net reserves at 31 December 2014.

Loss Reserve Development

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

Table 1

Summary of Catlin Group net reserves at 31 December 2014 (US$m)

Accident year	Catlin net reserves	Legacy Wellington net reserves	Total net reserves	% of total net reserves
2004 and prior	88	127	215	4%
2005	25	37	62	1%
2006	33	47	80	2%
2007	128	8	136	3%
2008	134	1	135	3%
2009	433		433	8%
2010	391		391	7%
2011	461		461	9%
2012	659		659	12%
2013	1,047		1,047	20%
2014	1,604		1,604	30%
Sub-total	5,003	220	5,223	99%
Other net reserves[1]			31	1%
Total net reserves			5,254	100%

1 Other net reserves include unallocated claims handling expenses, potential reinsurance failure and disputes, other outwards reinsurance and Life business

Table 2

Events included in the major events sections of loss development triangles

Accident year	Event
2002 & prior	World Trade Centre/US Terrorism 9/11
2004	Hurricane Charley
	Hurricane Frances
	Hurricane Ivan
	Hurricane Jeanne
2005	Hurricane Katrina
	Hurricane Rita
	Hurricane Wilma
2008	Hurricane Ike
2010	Chilean Earthquake
	Deepwater Horizon
	New Zealand Earthquake
	Australian Floods, Central Queensland
2011	Australian Floods, Brisbane
	New Zealand Earthquake
	Japanese Earthquake
	Tuscaloosa Tornadoes
	Joplin Tornadoes
	New Zealand Sumner Earthquake
	Hurricane Irene
	Danish Cloudburst
	Thai Floods
2012	Costa Concordia
	Windstorm Sandy
2013	Central European Floods
	Calgary Floods
	German Hailstorms
	Other Catastrophe Events

Commentary on development tables

- Non-major events: The 2010 and 2011 accident years have improved due to changes in reserving assumptions in the Casualty and Reinsurance product groups. The 2012 accident year has improved due to changes in reserving assumptions in the Reinsurance product group and better than expected experience in the Marine product group. The 2013 accident year has mainly improved due to changes in reserving assumptions and better than expected experience in the Energy and Marine product groups.

- Major events: The deterioration on 2010 major events is driven by the New Zealand Darfield earthquake, mostly due to updated cedant advices. The deterioration on 2012 major events is mainly driven by the deterioration on the Costa Concordia loss. The improvement on 2013 major events is largely driven by reductions in the Oklahoma Tornado loss and Central European Floods loss.

Limitations

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

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

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

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

Estimated ultimate net losses (US$m)

Table 3

	Wellington accident periods 2006 and prior	2004 & prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
		Accident year											
Net premiums earned			1,190	1,333	2,715	2,531	2,895	3,231	3,612	3,604	3,948	4,160	
Net ultimate excluding major events													
Initial estimate[1]	5,881	2,492	580	626	1,359	1,521	1,784	1,651	1,802	1,783	2,020	2,248	
One year later	5,857	2,429	527	585	1,412	1,496	1,753	1,630	1,818	1,758	2,005		
Two years later	5,765	2,392	486	570	1,395	1,491	1,738	1,576	1,777	1,713			
Three years later	5,755	2,406	464	555	1,384	1,470	1,702	1,515	1,743				
Four years later	5,659	2,399	459	548	1,389	1,459	1,653	1,467					
Five years later	5,650	2,403	452	549	1,382	1,454	1,648						
Six years later	5,588	2,410	455	547	1,389	1,440							
Seven years later	5,556	2,385	451	543	1,384								
Eight years later	5,564	2,372	446	541									
Nine years later		2,348	443										
Ten years later		2,344											
Net ultimate loss ratio excluding major events													
Initial estimate[1]			48.7%	46.9%	50.0%	60.1%	61.6%	51.1%	49.9%	49.5%	51.2%	54.0%	
One year later			44.3%	43.8%	52.0%	59.1%	60.6%	50.5%	50.3%	48.8%	50.8%		
Two years later			40.8%	42.7%	51.4%	58.9%	60.0%	48.8%	49.2%	47.5%			
Three years later			39.0%	41.6%	51.0%	58.1%	58.8%	46.9%	48.3%				
Four years later			38.6%	41.1%	51.2%	57.6%	57.1%	45.4%					
Five years later			38.0%	41.2%	50.9%	57.4%	56.9%						
Six years later			38.2%	41.0%	51.2%	56.9%							
Seven years later			37.9%	40.7%	51.0%								
Eight years later			37.5%	40.6%									
Nine years later			37.2%										
Ten years later													
Net ultimate major events													
Initial estimate[1]		135	334			274		283	771	308	160		
One year later		137	386			286		279	790	386	147		
Two years later		137	397			288		292	748	409			
Three years later		137	401			284		309	746				
Four years later		141	393			285		336					
Five years later		147	412			293							
Six years later		144	409			298							
Seven years later		139	414										
Eight years later		137	422										
Nine years later		140	422										
Ten years later		141											
Net ultimate including major events													
Initial estimate[1]	5,881	2,628	914	626	1,359	1,794	1,784	1,935	2,573	2,091	2,180	2,248	
One year later	5,857	2,565	913	585	1,412	1,782	1,753	1,909	2,607	2,145	2,151		
Two years later	5,765	2,529	882	570	1,395	1,779	1,738	1,868	2,524	2,122			
Three years later	5,755	2,543	865	555	1,384	1,754	1,702	1,824	2,489				
Four years later	5,659	2,541	853	548	1,389	1,743	1,653	1,803					
Five years later	5,650	2,551	864	549	1,382	1,748	1,648						
Six years later	5,588	2,554	864	547	1,389	1,738							
Seven years later	5,556	2,525	865	543	1,384								
Eight years later	5,564	2,509	868	541									
Nine years later		2,489	865										
Ten years later		2,485											
Net ultimate loss ratio including major events													
Initial estimate[1]			76.8%	46.9%	50.0%	70.9%	61.6%	59.9%	71.2%	58.0%	55.2%	54.0%	
One year later			76.7%	43.8%	52.0%	70.4%	60.6%	59.1%	72.2%	59.5%	54.5%		
Two years later			74.1%	42.7%	51.4%	70.3%	60.0%	57.8%	69.9%	58.9%			
Three years later			72.6%	41.6%	51.0%	69.3%	58.8%	56.5%	68.9%				
Four years later			71.6%	41.1%	51.2%	68.9%	57.1%	55.8%					
Five years later			72.6%	41.2%	50.9%	69.0%	56.9%						
Six years later			72.6%	41.0%	51.2%	68.6%							
Seven years later			72.7%	40.7%	51.0%								
Eight years later			72.9%	40.6%									
Nine years later			72.7%										
Ten years later													
Cumulative net paid	5,354	2,399	840	509	1,248	1,603	1,215	1,412	2,028	1,463	1,105	645	**19,820**
Estimated net ultimate claims	5,564	2,488	865	541	1,384	1,738	1,648	1,803	2,489	2,122	2,151	2,248	**25,042**
Estimated net claim reserves	210	88	25	33	136	135	433	391	461	659	1,047	1,604	**5,222**
Other net reserves[2]													**32**
Booked reserves													**5,254**

1 Initial estimates for 2004 and prior shown as at 31 December 2004; initial estimates for Wellington accident periods 2006 and prior are shown as at the date of business combination
2 Other net reserves include unallocated claims handling expenses, potential reinsurance failure and disputes, other outwards reinsurance and Life business.

Loss Reserve Development

Net paid losses (US$m)

Table 4

	Accident year											
	Wellington accident periods 2006 and prior	2004 & prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net premiums earned			1,190	1,333	2,715	2,531	2,895	3,231	3,612	3,604	3,948	4,160
Net paid excluding major events												
End of accident year[1]	3,748	1,301	118	154	348	309	356	402	447	490	538	645
One year later	4,099	1,594	223	264	580	669	695	704	902	944	1,027	
Two years later	4,543	1,799	285	352	867	933	906	915	1,188	1,185		
Three years later	4,904	1,912	341	411	1,014	1,041	1,080	1,042	1,367			
Four years later	5,082	2,022	370	449	1,107	1,162	1,141	1,159				
Five years later	5,200	2,096	386	479	1,163	1,242	1,215					
Six years later	5,242	2,150	402	498	1,217	1,296						
Seven years later	5,329	2,192	401	509	1,248							
Eight years later	5,354	2,229	412	509								
Nine years later		2,230	418									
Ten years later		2,248										
Net paid loss ratio excluding major events												
End of accident year[1]			9.9%	11.6%	12.8%	12.2%	12.3%	12.5%	12.4%	13.6%	13.6%	15.5%
One year later			18.7%	19.8%	21.4%	26.4%	24.0%	21.8%	25.0%	26.2%	26.0%	
Two years later			23.9%	26.4%	31.9%	36.8%	31.3%	28.3%	32.9%	32.9%		
Three years later			28.7%	30.9%	37.4%	41.1%	37.3%	32.2%	37.9%			
Four years later			31.1%	33.7%	40.8%	45.9%	39.4%	35.9%				
Five years later			32.5%	35.9%	42.8%	49.1%	42.0%					
Six years later			33.8%	37.3%	44.8%	51.2%						
Seven years later			33.7%	38.1%	46.0%							
Eight years later			34.6%	38.2%								
Nine years later			35.1%									
Ten years later												
Net paid major events												
End of accident year[1]		80	94			101		79	280	49	27	
One year later		126	248			193		155	629	187	77	
Two years later		131	347			251		192	648	277		
Three years later		136	378			273		226	661			
Four years later		138	393			300		253				
Five years later		141	399			305						
Six years later		141	402			307						
Seven years later		140	405									
Eight years later		137	422									
Nine years later		139	422									
Ten years later		139										
Net paid including major events												
End of accident year[1]	3,748	1,380	212	154	348	410	356	482	727	540	565	645
One year later	4,099	1,720	471	264	580	861	695	859	1,532	1,131	1,105	
Two years later	4,543	1,930	632	352	867	1,184	906	1,106	1,836	1,463		
Three years later	4,904	2,048	719	411	1,014	1,314	1,080	1,268	2,028			
Four years later	5,082	2,159	764	449	1,107	1,462	1,141	1,412				
Five years later	5,200	2,236	785	479	1,163	1,547	1,215					
Six years later	5,242	2,291	804	498	1,217	1,603						
Seven years later	5,329	2,332	806	509	1,248							
Eight years later	5,354	2,366	834	509								
Nine years later		2,369	840									
Ten years later		2,388										
Net paid loss ratio including major events												
End of accident year[1]			17.8%	11.6%	12.8%	16.2%	12.3%	14.9%	20.1%	15.0%	14.3%	15.5%
One year later			39.6%	19.8%	21.4%	34.0%	24.0%	26.6%	42.4%	31.4%	28.0%	
Two years later			53.1%	26.4%	31.9%	46.8%	31.3%	34.2%	50.8%	40.6%		
Three years later			60.4%	30.9%	37.4%	51.9%	37.3%	39.3%	56.2%			
Four years later			64.2%	33.7%	40.8%	57.7%	39.4%	43.7%				
Five years later			66.0%	35.9%	42.8%	61.1%	42.0%					
Six years later			67.6%	37.3%	44.8%	63.3%						
Seven years later			67.7%	38.1%	46.0%							
Eight years later			70.0%	38.2%								
Nine years later			70.5%									
Ten years later												

1 End of accident year for 2004 and prior shown as at 31 December 2004; end of accident year for Wellington accident periods 2006 and prior are shown as at the date of business combination

Independent Auditor's Report

To the Board of Directors and Stockholders of Catlin Group Limited

We have audited the accompanying Consolidated Financial Statements of Catlin Group Limited and its subsidiaries, which comprise the Consolidated Balance Sheets as of 31 December 2014 and 31 December 2013 and the related Consolidated Income Statements, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Stockholders' Equity, Consolidated Statement of Cash Flows and Notes to the Consolidated Financial Statements for the years then ended.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements based on our audits. We conducted our audits 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 Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Catlin Group Limited and its subsidiaries at 31 December 2014 and 31 December 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers Ltd.
Chartered Professional Accountants
Bermuda
10 February 2015

Consolidated Balance Sheets

As at 31 December 2014 and 2013 (US dollars in millions)

	2014	2013
Assets		
Investments		
Fixed maturities, at fair value	**$7,511**	$6,455
Short-term investments, at fair value	**203**	184
Other invested assets	**604**	688
Total investments	**8,318**	7,327
Cash and cash equivalents	**957**	1,890
Accrued investment income	**40**	39
Premiums and other receivables	**2,004**	1,771
Reinsurance recoverable on unpaid losses (net of bad debts)	**1,451**	1,336
Reinsurance recoverable on paid losses (net of bad debts)	**254**	144
Reinsurers' share of unearned premiums	**749**	529
Deferred policy acquisition costs	**526**	490
Intangible assets and goodwill	**720**	720
Unsettled trades receivable	**13**	51
Other assets	**315**	223
Total assets	**$15,347**	$14,520
Liabilities and stockholders' equity		
Liabilities		
Reserves for losses and loss expenses	**$6,705**	$6,709
Unearned premiums	**3,062**	2,728
Reinsurance payable	**1,069**	729
Accounts payable and other liabilities	**313**	276
Subordinated debt	**90**	93
Unsettled trades payable	**37**	59
Deferred tax liability (net)	**59**	140
Income taxes payable	**20**	3
Total liabilities	**$11,355**	$10,737
Stockholders' equity		
Common stock	**$4**	$4
Additional paid-in capital	**1,998**	1,976
Treasury stock	**(39)**	(37)
Accumulated other comprehensive loss	**(243)**	(200)
Retained earnings	**1,682**	1,450
Total common stockholders' equity	**3,402**	3,193
Non-controlling interest in preferred stock of consolidated subsidiary	**590**	590
Total stockholders' equity	**3,992**	3,783
Total liabilities and stockholders' equity	**$15,347**	$14,520

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

Approved by the Board of Directors on 9 February 2015.

Stephen Catlin
Director

Benjamin Meuli
Director

Consolidated Income Statements

For the years ended 31 December 2014 and 2013 (US dollars in millions, except per share amounts)

	2014	2013
Revenues		
Gross premiums written	**$5,966**	$5,309
Reinsurance premiums ceded	**(1,621)**	(1,257)
Net premiums written	**4,345**	4,052
Change in net unearned premiums	**(185)**	(104)
Net premiums earned	**4,160**	3,948
Net investment return	**226**	124
Other income	**14**	11
Total revenues	**4,400**	4,083
Expenses		
Losses and loss expenses	**2,183**	2,063
Policy acquisition costs	**986**	882
Administrative and other expenses	**717**	661
Financing costs	**17**	19
Net losses on foreign currency	**9**	26
Total expenses	**3,912**	3,651
Net income before income tax	**488**	432
Income tax (expense)/benefit	**(26)**	4
Net income	**462**	436
Non-controlling preferred stock dividend	**(44)**	(44)
Net income to common stockholders	**$418**	$392
Earnings per common share		
Basic	**$1.17**	$1.11
Diluted	**$1.11**	$1.08

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

Consolidated Statements of Comprehensive Income

For the years ended 31 December 2014 and 2013 (US dollars in millions)

	2014	2013
Net income to common stockholders	**$418**	$392
Other comprehensive income/(loss), net of tax		
Translation adjustments	**(44)**	(6)
Defined benefit pension plan	**1**	–
Total other comprehensive loss	**(43)**	(6)
Comprehensive income to common stockholders	**$375**	$386

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended 31 December 2014 and 2013 (US dollars in millions)

	Common stock	Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Retained earnings	Non-controlling preferred stock	Total stockholders' equity
Balance 1 January 2013	**$4**	**$1,961**	**$(73)**	**$(194)**	**$1,224**	**$590**	**$3,512**
Net income to common stockholders	–	–	–	–	392	–	392
Other comprehensive loss	–	–	–	(6)	–	–	(6)
Stock compensation expense	–	50	–	–	–	–	50
Stock options exercised	–	1	–	–	–	–	1
Dividends	–	–	–	–	(166)	–	(166)
Distribution of treasury stock held in Employee Benefit Trust	–	(36)	36	–	–	–	–
Balance 31 December 2013	**$4**	**$1,976**	**$(37)**	**$(200)**	**$1,450**	**$590**	**$3,783**
Net income to common stockholders	–	–	–	–	418	–	418
Other comprehensive loss	–	–	–	(43)	–	–	(43)
Stock compensation expense	–	60	–	–	–	–	60
Stock options exercised	–	2	–	–	–	–	2
Dividends	–	–	–	–	(186)	–	(186)
Treasury stock purchased	–	–	(42)	–	–	–	(42)
Distribution of treasury stock held in Employee Benefit Trust	–	(40)	40	–	–	–	–
Balance 31 December 2014	**$4**	**$1,998**	**$(39)**	**$(243)**	**$1,682**	**$590**	**$3,992**

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

Consolidated Statements of Cash Flows

For the years ended 31 December 2014 and 2013 (US dollars in millions)

	2014	2013
Cash flows provided by operating activities		
Net income	**$462**	$436
Adjustments to reconcile net income to net cash provided by operations:		
Amortisation and depreciation	**26**	22
Amortisation of net discounts of fixed maturities	**43**	46
Net gains on investments	**(106)**	(18)
Changes in operating assets and liabilities:		
Reserves for losses and loss expenses	**152**	(10)
Unearned premiums	**405**	163
Premiums and other receivables	**(275)**	42
Deferred policy acquisition costs	**(50)**	(59)
Reinsurance recoverable on unpaid losses	**(145)**	71
Reinsurance recoverable on paid losses	**(116)**	(40)
Reinsurers' share of unearned premiums	**(238)**	(61)
Reinsurance payable	**373**	78
Accounts payable and other liabilities	**34**	66
Deferred taxes	**(75)**	(40)
Net income tax payable	**11**	3
Other	**83**	78
Net cash flows provided by operating activities	**584**	777
Cash flows used in investing activities		
Purchases of fixed maturities	**(9,795)**	(4,181)
Proceeds from sales of fixed maturities	**8,317**	3,578
Proceeds from maturities of fixed maturities	**240**	206
Net purchases, sales and maturities of short-term investments	**(17)**	(64)
Purchases of other invested assets	**(631)**	(725)
Proceeds from the sales and redemptions of other invested assets	**775**	714
Net purchases and sales of property and equipment	**(84)**	(66)
Net cash flows used in investing activities	**(1,195)**	(538)
Cash flows used in financing activities		
Dividends paid on common stock	**(186)**	(166)
Dividends paid on non-controlling preferred stock	**(44)**	(44)
Purchase of treasury stock	**(42)**	–
Net cash flows used in financing activities	**(272)**	(210)
Net (decrease)/increase in cash and cash equivalents	**(883)**	29
Effect of exchange rate changes	**(50)**	(16)
Cash and cash equivalents – beginning of year	**1,890**	1,877
Cash and cash equivalents – end of year	**957**	$1,890
Supplementary cash flow information		
Taxes paid	**$94**	$19
Interest paid	**$3**	$4
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	**$543**	$691
Cash equivalents	**$414**	$1,199

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

Notes to the Consolidated Financial Statements
For the years ended 31 December 2014 and 2013

1 Nature of operations
Catlin Group Limited ('Catlin' or the 'Company') is a holding company incorporated on 25 June 1999 under the laws of Bermuda. Through its subsidiaries, which together with the Company are referred to as the 'Group', Catlin underwrites specialty classes of insurance and reinsurance on a global basis.

The Group consists of four reporting segments as described in Note 3.

The 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. Risks are insured worldwide, although risks originating in the United States predominate. The Group currently operates from more than 50 offices in more than 20 countries.

2 Significant accounting policies
Basis of presentation
The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ('US GAAP'). The preparation of financial statements in conformity with US GAAP requires management to make estimates when recording transactions resulting from business operations based on information currently available. The most significant items on the Group's balance sheet that involve accounting estimates and actuarial determinations are reserves for losses and loss expenses, reinsurance recoverables, valuation of investments, intangible assets and goodwill. The accounting estimates 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.

With effect from 2014, deposits managed centrally by Lloyd's are included in fixed maturities, whereas previously they were reported as cash and cash equivalents. This revised presentation is considered a more appropriate reflection of the underlying investments. A reclassification to the value of $401 million has been made to the balance sheet at 31 December 2013 to reflect this change. Certain other insignificant prior year reclassifications, have been made to conform to the 2014 presentation. These reclassifications have no impact on net income or stockholders' equity.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and all of its subsidiaries. With the exception of preferred stock issued by one consolidated subsidiary, the equity of all subsidiaries is wholly owned by the Company. All significant inter-company transactions and balances are eliminated on consolidation.

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

Fixed maturities and short-term investments
The Group has elected to apply the fair value option to its fixed maturities and short-term investments. The Group's fixed maturities and short-term investments are carried at fair value. The fair value is based on the quoted market price of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriter bid indications. Short-term investments are composed of instruments 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 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 Income Statements.

Other invested assets
The Group's other invested assets comprise investments in funds, equity securities and loan instruments. Equity investments over which the Group exercises significant influence are carried at cost adjusted for the Group's share of earnings or losses and distributions. The remainder of the Group's other invested assets are carried at fair value. All income, gains and losses on other invested assets are included within net investment return in the Consolidated Income Statements.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2013

2 Significant accounting policies continued

Derivatives

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

The fair values of equity contracts, interest rate contracts and credit default contracts described in Note 5 are based on prices provided by independent pricing services. Any equity contracts at the balance sheet date are included in other invested assets in the Consolidated Balance Sheets. Any open interest rate contracts and credit default contracts are included in fixed maturity investments. Gains and losses resulting from changes in fair value are included in net investment return in the Consolidated Income Statements.

The fair values of foreign exchange derivatives described in Note 5 are based on prices provided by counterparties. Gains and losses on foreign exchange derivatives are included in net gains/(losses) on foreign currency in the Consolidated Income Statements.

Cash and cash equivalents

Cash equivalents include all instruments with original maturities of 90 days or less.

Securities lending

The Group participates in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the loaned securities remain under the Group's control and therefore remain on the Group's balance sheets. Collateral in the form of cash, government securities and letters of credit is required and is monitored and maintained by the lending agent. The Group receives interest income on the invested collateral, which is included in net investment return in the Consolidated Income Statements.

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 are recognised at the time an applicable insured event occurs and are fully earned when recognised.

Policy acquisition costs

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

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

Reserves for losses and loss expenses

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

Reserves for losses and loss expenses are established based on amounts reported from insureds or ceding companies and according to generally accepted actuarial 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 net income in the current year in the Consolidated Income Statements.

2 Significant accounting policies continued

Reinsurance

In the ordinary course of business, the Group's subsidiaries cede premiums to other insurance companies. These arrangements allow for greater diversification of business and minimise the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve the Group of its obligations to its insureds.

Reinsurance premiums ceded and commissions thereon are recognised over the period that the reinsurance coverage is provided. Reinsurers' share of unearned premiums represents the portion of premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts in force. Reinstatement premiums payable are recognised at the time an applicable insured event occurs and are fully expensed when recognised.

Reinsurance recoverables include the balances due from reinsurance companies for unpaid and paid 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.

Retroactive reinsurance

Catlin has purchased an Adverse Development Cover ('ADC') that, subject to limits, provided protection during 2014 against the deterioration of loss reserves relating to the Group's 2011 and prior underwriting years. This coverage is accounted for as retroactive reinsurance, which is reinsurance where the cedant is reimbursed for liabilities incurred as a result of past insurable events. Net costs of the ADC are recognised immediately as reinsurance premiums ceded in the Consolidated Income Statements. Any net gains that arise as a result of subsequent covered adverse development are deferred and amortised into income over the settlement period of the recoveries under the relevant contract.

Intangible assets and goodwill

The Group's intangible assets relate to syndicate capacity 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.

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

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 Income Statements.

The impairment tests involve an initial assessment of qualitative factors. If this assessment indicates that further impairment testing is necessary, the fair values of reporting units and intangible assets are evaluated and compared to the relevant carrying values. 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 securities lending collateral.

Comprehensive income/(loss)

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

Foreign currency

Foreign currency translation

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

Foreign currency transactions

Monetary assets and liabilities denominated in currencies other than the functional currency are re-valued at period-end rates of exchange, with the resulting gains and losses included in net income in the Consolidated Income Statements.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2013

2 Significant accounting policies continued

Income taxes

Income taxes have been provided for those operations that are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Group's assets and liabilities. Such temporary differences are primarily due to the recognition of untaxed profits and intangible assets arising from the acquisition of Wellington Underwriting plc ('Wellington') in December 2006. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date.

A valuation allowance against deferred tax assets is recorded if it is more likely than not that all or some portion of the benefits related to deferred tax assets will not be realised.

Stock compensation

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

Treasury stock

Treasury stock comprises common shares in the Company purchased by and held within the Group. These shares are recognised at cost in the Consolidated Balance Sheets and are shown as a deduction from stockholders' equity.

Non-controlling interest in preferred stock

Non-cumulative perpetual preferred stock issued by a consolidated subsidiary of the Group is shown within stockholders' equity in the Consolidated Balance Sheets as non-controlling interest in preferred stock. They are valued based on the proceeds received when issued, net of issuance costs. The non-controlling preferred stock is described further in Note 12.

Pensions

The Group operates defined contribution pension schemes for eligible employees, the costs of which are expensed as incurred. The Group also sponsors a defined benefit pension scheme which was closed to new members in 1993. Any surplus or deficit on the scheme is carried as an asset or liability in the Consolidated Balance Sheets.

New accounting pronouncements

In May 2014, the Financial Accounting Standards Board ('FASB') issued Accounting Standards Update ('ASU') No. 2014–09, Revenue from Contracts with Customers, providing a new model for revenue recognition for most companies. The accounting for insurance contracts, investment income and topics covered by other GAAP are not amended by this guidance. The update will be effective for the Group from the beginning of 2017. Early application is not permitted. Under the new model an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update also requires additional disclosures about revenue. Catlin is currently evaluating the impact of this guidance on the Company's financial position and results of operations.

In June 2014 the FASB issued ASU No. 2014–11, Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures. Accounting changes for repurchase-to-maturity transactions and repurchase financings along with disclosures for transactions accounted for as a sale are effective for the Group from the beginning of 2015. Disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings are first required for the Group in the 2015 year-end Financial Statements. Early application is not permitted. Under the new requirements, repurchase-to-maturity transactions will be accounted for as secured borrowings, as will repurchase financing arrangements. The update also requires enhanced disclosures for these transactions as well as for repurchase agreements and securities lending activities. Catlin is currently evaluating the impact of this guidance and does not expect a significant impact on the Company's financial position and results of operations.

3 Segmental information

The Group determines its reportable segments by underwriting hubs, consistent with the manner in which results are reviewed by management.

The four reportable segments are:

- London, which comprises direct insurance and reinsurance business originating in the United Kingdom and in the London wholesale market;
- Bermuda, which primarily underwrites reinsurance business;
- US, which underwrites direct insurance and reinsurance business originating in the United States and Latin America; and
- International, which comprises the Group's Asia-Pacific, Europe and Canada underwriting hubs, which provide a full complement of insurance and reinsurance services for their markets.

At 31 December 2014 there were four significant intra-Group reinsurance contracts in place: a 40 per cent quota share, which cedes Catlin Syndicate 2003 at Lloyd's ('Catlin Syndicate') risk to Catlin Re Schweiz AG ('Catlin Re Switzerland'); a 75 per cent quota share contract, which cedes Catlin Insurance Company (UK) Limited ('Catlin UK') risk to Catlin Re Switzerland; a Whole Account Stop Loss contract, which cedes 5.5 per cent of premiums and up to 20 per cent of losses above a net loss ratio of 86 per cent from the Catlin Syndicate to Catlin Re Switzerland; and a 75 per cent quota share contract, which cedes Catlin Inc. ('Catlin US') risk to Catlin Re Switzerland. Further quota share contracts were in place that ceded risk from 2010 and prior underwriting years to Catlin Insurance Company Ltd. ('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 underwriting hub for the year ended 31 December 2014 is as follows:

(US dollars in millions)	**London**	**Bermuda**	**US**	**International**	**Total**
Gross premiums written	**$2,763**	**$577**	**$1,374**	**$1,252**	**$5,966**
Net premiums earned	**1,895**	**449**	**937**	**879**	**4,160**
Losses and loss expenses	**(905)**	**(154)**	**(596)**	**(528)**	**(2,183)**
Policy acquisition costs	**(463)**	**(107)**	**(212)**	**(204)**	**(986)**
Net underwriting contribution	**$527**	**$188**	**$129**	**$147**	**$991**

Net underwriting contribution by underwriting hub for the year ended 31 December 2013 is as follows:

(US dollars in millions)	London	Bermuda	US	International	Total
Gross premiums written	$2,474	$577	$1,213	$1,045	$5,309
Net premiums earned	1,832	486	858	772	3,948
Losses and loss expenses	(880)	(191)	(512)	(480)	(2,063)
Policy acquisition costs	(429)	(112)	(178)	(163)	(882)
Net underwriting contribution	$523	$183	$168	$129	$1,003

The components of net underwriting contribution shown above are reported on the face of the Consolidated Income Statements. No other items of revenue or expenses are managed on a segmental basis.

Assets are reviewed in total by management for the purpose of decision making. The Group does not allocate assets to the reporting segments.

Notes to the Consolidated Financial Statements
For the years ended 31 December 2014 and 2013

4 Investments
Fixed maturities
The fair values of fixed maturities at 31 December 2014 and 2013 are as follows:

(US dollars in millions)	2014	2013
US government and agencies	**$1,447**	$609
Non-US governments	**1,867**	1,860
Corporate securities	**2,733**	2,298
Asset-backed securities	**637**	1,040
Mortgage-backed securities	**830**	645
Interest rate derivative contracts	**–**	6
Credit default derivative contracts	**(3)**	(3)
Total fixed maturities	**$7,511**	$6,455

$794 million (2013: $545 million) of the total mortgage-backed securities at 31 December 2014 is represented by investments in Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and National Credit Union Administration bonds.

With effect from 2014, deposits managed centrally by Lloyd's are included in fixed maturities, whereas previously they were reported as cash and cash equivalents. The value of these deposits at 31 December 2014 was $353 million (2013: $401 million). 2013 amounts have been revised accordingly.

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

	2014		2013	
(US dollars in millions)	Fair value	%	Fair value	%
US government and agencies	**$1,447**	**19**	$609	9
Non-US governments	**1,867**	**25**	1,860	29
AAA	**1,311**	**18**	1,592	25
AA	**1,664**	**22**	1,372	21
A	**1,004**	**13**	809	13
BBB and other	**221**	**3**	210	3
Interest rate derivative contracts	**–**	**–**	6	–
Credit default derivative contracts	**(3)**	**–**	(3)	–
Total fixed maturities	**$7,511**	**100**	$6,455	100

Fixed maturities at 31 December 2014 and 2013, 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)	2014	2013
Due in one year or less	**$741**	$477
Due after one through five years	**4,029**	3,244
Due after five years through ten years	**1,016**	898
Due after ten years	**261**	148
	6,047	4,767
Asset-backed securities	**637**	1,040
Mortgage-backed securities	**830**	645
Interest rate derivative contracts	**–**	6
Credit default derivative contracts	**(3)**	(3)
Total fixed maturities	**$7,511**	$6,455

The Group did not have an aggregate investment with a single counterparty in excess of 10 per cent of total investments at 31 December 2014 and 2013.

4 Investments continued

Other invested assets

Other invested assets by category at 31 December 2014 and 2013 are as follows:

(US dollars in millions)	2014	2013
Hedge funds	**$11**	$22
Equity funds	**97**	73
Equity securities	**233**	353
Loan instruments	**238**	199
Equity market derivative contracts	**2**	5
Other invested assets at fair value	**581**	652
Equity method investments	**23**	36
Total other invested assets	**$604**	$688

Hedge funds are a portfolio comprising nine individual hedge funds. The Group has issued redemption notices in respect of all of the hedge funds and received the majority of the proceeds. The balance will be paid on the completion of final fund audit or the disposal of remaining investments.

Equity funds are a portfolio comprising six individual private equity funds, three of which were entered into in 2011 and three in 2013. The equity funds have initial investment periods of up to five years.

Equity securities comprise $158 million of quoted equity securities and $75 million of private equity.

Loan instruments comprise holdings in syndicated loans and other unquoted private debt, including $79 million in relation to loan advances made to Box Innovation Group Ltd.

There are unfunded commitments related to investments in funds of $132 million as at 31 December 2014 (2013: $80 million).

Equity method investments comprise investments over which the Group exercises significant influence. These investments are accounted for using the equity method. At 31 December 2014, for the majority of the investments the Group owned between 22.5 per cent and 50.0 per cent interests in these entities. The share of profit on equity method investments included within the Consolidated Income Statements was $2 million (2013: $3 million). In management's opinion the fair value of these investments is not less than their carrying value.

Net investment return

The components of net investment return for the years ended 31 December 2014 and 2013 are as follows:

(US dollars in millions)	2014	2013
Investment income	**$134**	$127
Net gains/(losses) on fixed maturities and short-term investments	**30**	(94)
Net gains on other invested assets	**77**	102
Total investment return	**241**	135
Investment expenses	**(15)**	(11)
Net investment return	**$226**	$124

The Group has elected to apply the fair value option to its fixed maturity securities and short-term investments. In 2014, net gains from fair value changes in these items were $30 million (2013: $94 million losses).

Gains in 2014 on fixed maturities and short-term investments still held at 31 December 2014 were $55 million (2013: $88 million loss). Gains in 2014 on other invested assets still held at 31 December 2014 were $32 million (2013: $34 million gain).

Net gains on other invested assets include $31 million in relation to Box Innovation Group Ltd.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2013

4 Investments continued

Restricted assets

The Group is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. These funds on deposit are available to settle insurance and reinsurance liabilities. The Group also has investments in segregated portfolios primarily to provide collateral for Letters of Credit ('LOCs'), as described in Note 18. Finally, the Group also utilises trust funds set up for the benefit of certain ceding companies as an alternative to LOCs. With effect from 2014, the Group has extended its disclosed restricted assets to include balances held to support intra-group reinsurance activities. 2013 amounts have been revised accordingly.

The total value of these restricted assets by category at 31 December 2014 and 2013 is as follows:

(US dollars in millions)	**2014**	2013
Fixed maturities	**$4,221**	$4,037
Short-term investments	**56**	60
Cash and cash equivalents	**185**	518
Total restricted assets	**$4,462**	$4,615

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 $1 million (2013: $9 million) of securities on loan at 31 December 2014.

5 Derivative financial instruments

The Group is exposed to certain risks relating to its on-going business operations. Risks managed by using derivative instruments include interest rate risk, foreign exchange risk, credit risk and equity risk. Derivatives are also used for efficient portfolio management.

Interest rate risk

The investment portfolio is predominantly invested in cash and fixed income securities and so is exposed to interest rate risk. Interest rate swap and option contracts are entered into in order to manage the market risk associated with holding fixed income securities and also to manage any duration mismatch between assets and liabilities.

Gains and losses on interest rate derivative contracts are included in net investment return together with related gains/(losses) on fixed maturities in the Consolidated Income Statements. Interest rate derivative contracts' fair value is included in fixed maturities on the Consolidated Balance Sheets.

Credit risk

Part of the investment portfolio is invested in bonds issued by corporate issuers and so is exposed to the default risk of the underlying issuers and also to mark to market fluctuations arising from the market's evaluation of this risk. Credit derivatives and swap contracts are entered into in order to manage the credit risk associated with holding these securities.

Gains and losses on credit default swap and option contracts are included in net investment return together with related gains/(losses) on fixed maturities in the Consolidated Income Statements. Credit default derivative contracts' fair value is included in fixed maturities on the Consolidated Balance Sheets.

Equity risk

A portion of the investment portfolio is invested in equity securities. Equity market option contracts are entered into to manage the market risk associated with holding these equity securities and for efficient portfolio management.

Gains and losses on equity market derivative contracts are included in net investment return together with related gains/(losses) on other invested assets in the Consolidated Income Statements. Equity market derivative contracts' fair value is included in other invested assets on the Consolidated Balance Sheets.

5 Derivative financial instruments continued

Foreign exchange risk

During the period, the Group held various foreign currency derivatives to manage currency risk. Gains and losses on foreign exchange contracts are included in net gains/(losses) on foreign currency in the Consolidated Income Statements. Foreign exchange contracts' fair value is included in other assets on the Consolidated Balance Sheets.

Impact of derivatives

The fair values of derivatives at 31 December 2014 and 2013 are as follows:

(US dollars in millions)	2014 Gross amount of recognised assets	2014 Gross amount offset in the balance sheet	2014 Net amount in the balance sheet	2013 Gross amount of recognised assets	2013 Gross amount offset in the balance sheet	2013 Net amount in the balance sheet
Interest rate contracts	**$2**	**$(2)**	**$–**	$15	$(9)	$6
Credit default contracts	**–**	**(3)**	**(3)**	–	(3)	(3)
Equity market contracts	**2**	**–**	**2**	6	(1)	5
Foreign exchange contracts	**–**	**–**	**–**	1	–	1
Total derivatives	**$4**	**$(5)**	**$(1)**	$22	$(13)	$9

Cash collateral related to derivatives not offset in the balance sheet was $22 million at 31 December 2014 (2013: $19 million).

The notional values of open derivatives at 31 December 2014 and 2013 are as follows:

(US dollars in millions)	Notional value 2014	Notional value 2013
Interest rate options	**$200**	$200
Interest rate swap contracts	**2,349**	1,341
Credit default swap option contracts	**750**	1,100
Credit default swap contracts	**33**	33
Equity market option contracts	**176**	298
Foreign exchange contracts	**234**	17

The net gains/(losses) on derivatives at 31 December 2014 and 2013 are as follows:

(US dollars in millions)	2014	2013
Interest rate contracts	**$(49)**	$–
Credit default contracts	**(4)**	(13)
Equity market contracts	**4**	5
Foreign exchange contracts	**(2)**	(1)
Net losses on derivatives	**$(51)**	$(9)

The derivatives contracts held by the Group at 31 December 2014 contain no contingent features related to the Group's credit risk.

During 2014 derivatives were used in the investment portfolio to manage tail risks, modify duration positioning, and for efficient portfolio and risk capital management. The interest rate swaps were used to shorten duration and interest rate options were used to provide protection against the tail risk of large falls in interest rates. The credit default derivative contracts provided protection of the credit risk in our portfolio. Equity market derivative contracts were utilised for both tail risk protection and efficient portfolio management.

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6 Fair value measurement

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

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

Assets utilising Level 1 inputs comprise US government securities and quoted exchange-traded instruments.

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 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 and interest rate contracts); fixed-term cash deposits classified as short-term investments; private debt with readily available prices; 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 assessment of assumptions that market participants might use.

Assets utilising Level 3 inputs include: investments in funds with significant redemption restrictions; unquoted private equity and debt not qualifying as Level 2; collateralised debt obligations ('CDO'); and sub-prime securities, Alt-A securities and securities rated 'CCC' and below, where the unobservable inputs reflect individual assumptions and judgments regarding ultimate delinquency and foreclosure rates and estimates regarding the likelihood and timing of events of defaults.

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

With effect from 2014, deposits managed centrally by Lloyd's are included in fixed maturities, whereas previously they were reported as cash and cash equivalents. The value of these deposits at 31 December 2014 was $353 million (2013: $401 million). 2013 amounts have been revised accordingly.

6 Fair value measurement continued

Assets and liabilities measured at fair value on a recurring basis

The table below shows the values at 31 December 2014 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 2014	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
US government and agencies	$1,447	$816	$631	$–
Non-US governments	1,867	–	1,867	–
Corporate securities	2,733	–	2,711	22
ABS	637	–	637	–
RMBS	827	–	815	12
CMBS	3	–	3	–
Credit default derivative contracts	(3)	–	(3)	–
Total fixed maturities	7,511	816	6,661	34
Short-term investments	203	65	138	–
Other invested assets at fair value	581	158	153	270
Total assets at fair value	$8,295	$1,039	$6,952	$304

The table below shows the values at 31 December 2013 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 2013	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
US government and agencies	$609	$133	$476	$–
Non-US governments	1,860	–	1,860	–
Corporate securities	2,298	–	2,288	10
ABS	1,040	–	1,012	28
RMBS	586	–	537	49
CMBS	59	–	47	12
Interest rate derivative contracts	6	–	6	–
Credit default derivative contracts	(3)	–	(3)	–
Total fixed maturities	6,455	133	6,223	99
Short-term investments	184	54	130	–
Other invested assets at fair value	652	293	187	172
Foreign exchange derivative contracts	1	–	1	–
Total assets at fair value	$7,292	$480	$6,541	$271

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6 Fair value measurement continued
The changes in the year ended 31 December 2014 in balances measured at fair value on a recurring basis using Level 3 inputs were as follows:

(US dollars in millions)	Total	Corporate	ABS	RMBS	CMBS	Other invested assets
Balance, 1 January 2014	**$271**	**$10**	**$28**	**$49**	**$12**	**$172**
Total net gains included in income	**35**	**1**	**–**	**1**	**2**	**31**
Acquisitions	**166**	**13**	**–**	**7**	**–**	**146**
Disposals	**(168)**	**(2)**	**(28)**	**(45)**	**(14)**	**(79)**
Balance, 31 December 2014	**$304**	**$22**	**$–**	**$12**	**$–**	**$270**
Amount of gains/(losses) relating to balances still held at year end	**$26**	**$1**	**$–**	**$–**	**$–**	**$25**

There were no assets transferred into or out of Level 3 during 2014.

The changes in the year ended 31 December 2013 in balances measured at fair value on a recurring basis using Level 3 inputs were as follows:

(US dollars in millions)	Total	Corporate	ABS	RMBS	CMBS	Other invested assets
Balance, 1 January 2013	$233	$16	$24	$41	$6	$146
Total net gains included in income	34	7	–	3	1	23
Acquisitions	133	29	17	25	8	54
Disposals	(99)	(12)	(13)	(20)	(3)	(51)
Transfers out of Level 3	(30)	(30)	–	–	–	–
Balance, 31 December 2013	$271	$10	$28	49	$12	$172
Amount of gains/(losses) relating to balances still held at year end	$14	$(2)	$–	$–	$–	$16

Corporate assets transferred out of Level 3 were as a result of a credit upgrade during the year.

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

Fixed maturities and short-term 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 Group's Level 3 fixed maturities consist of RMBS, CMBS, ABS and corporate securities, for which pricing vendors and non-binding broker quotes are the primary source of the valuations. The Group compares the price to independent valuations, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value. Although the Group does not have access to the specific unobservable inputs that may have been used in the fair value measurements of RMBS, CMBS and ABS, the Group would expect that the significant inputs considered are prepayment rates, probability of default, loss severity in the event of default, recovery rates, liquidity premium and reinvestment rates. Significant increases or decreases in any of those inputs in isolation could result in a significantly different fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Other invested assets
The fair value of investments in funds is based on the net asset value provided by the funds' administrators. The fair values of holdings in equity and loan instruments are based on the market price of these securities provided by independent pricing services, or, when such prices are not available, by reference to broker or underwriting bid indications provided by administrators and recent transactions, if any.

6 Fair value measurement continued

The Group's Level 3 other invested assets include loan amounts advanced to Box Innovation Group Ltd, ('BIGL', trading as 'Insure the Box') in which the Group also holds an equity investment accounted for under the equity method. In December 2014, the Group entered into an agreement to dispose of its investment in BIGL, subject to regulatory approval. The fair value of the loan balance with BIGL at 31 December 2014 has been determined by management, taking into consideration the proportion of the agreed proceeds attributable to the loan amounts. The loan balance was valued at $79 million at 31 December 2014, and contributed a gain of $31 million to the Group's total investment return for 2014.

The Group's remaining Level 3 other invested assets consist of investments in funds with significant redemption restrictions and unquoted private equity and debt, for which manager NAV statements are the primary source of the valuations. Although the Group does not have access to the specific unobservable inputs that may have been used in the fair value measurements, the Group would expect the significant inputs for private equity and debt to be discounted cash flows and valuations of similar sized peers. Significant increases or decreases in any of those inputs in isolation could result in a significantly different fair value measurement.

Derivatives

The fair values of interest rate, foreign exchange, equity market and credit default derivative contracts are based on prices provided by independent pricing services.

Subordinated debt

Subordinated debt is carried at amortised cost. At 31 December 2014, the fair value of the subordinated debt was $84 million, which compared to a carrying value of $90 million. The fair value of the subordinated debt is estimated by comparing the Group's non-controlling preferred stock and other peer group instruments to determine market required yields. As such, fair value of subordinated debt is classified as Level 2.

Other assets and liabilities

The fair values of cash and cash equivalents, premiums and other receivables, and accounts payable approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

7 Reserves for losses and loss expenses

The Group establishes reserves for losses and loss expenses, which are estimates of future payments of reported and unreported losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves is complex and imprecise, requiring the use of informed estimates and judgments. The Group's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed, or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable and would be reflected in earnings in the period in which the estimates are changed. Management believes that they have made a reasonable estimate of the level of reserves at 31 December 2014 and 2013.

The reconciliation of unpaid losses and loss expenses for the years ended 31 December 2014 and 2013 is as follows:

(US dollars in millions)	**2014**	2013
Gross unpaid losses and loss expenses, beginning of year	**$6,709**	$6,686
Reinsurance recoverable on unpaid losses and loss expenses	**(1,336)**	(1,400)
Net unpaid losses and loss expenses, beginning of year	**$5,373**	$5,286
Net incurred losses and loss expenses for claims related to:		
Current year	**2,303**	2,230
Prior years	**(120)**	(167)
Total net incurred losses and loss expenses	**2,183**	2,063
Net paid losses and loss expenses for claims related to:		
Current year	**(701)**	(589)
Prior years	**(1,472)**	(1,414)
Total net paid losses and loss expenses	**(2,173)**	(2,003)
Foreign exchange and other	**(129)**	27
Net unpaid losses and loss expenses, end of year	**5,254**	5,373
Reinsurance recoverable on unpaid losses and loss expenses	**1,451**	1,336
Gross unpaid losses and loss expenses, end of year	**$6,705**	$6,709

As a result of the changes in estimates of insured events in prior years, the 2014 reserves for losses and loss expenses net of reinsurance recoveries decreased by $120 million (2013: $167 million). Reserve Releases have resulted from changes in reserving estimates across the Casualty, Energy and Marine and Reinsurance Product Groups. The releases in the Reinsurance Product Group have resulted from improvements in the Casualty Reinsurance offset by deteriorations in Property Treaty from the Costa Concordia accident and the New Zealand earthquakes.

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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:

	2014			2013		
(US dollars in millions)	**Premiums written**	**Premiums earned**	**Losses incurred**	Premiums written	Premiums earned	Losses incurred
Direct	**$3,735**	**$3,491**	**$1,958**	$3,343	$3,226	$1,577
Assumed	**2,231**	**2,059**	**905**	1,966	1,920	972
Ceded	**(1,621)**	**(1,390)**	**(680)**	(1,257)	(1,198)	(486)
Net premiums	**$4,345**	**$4,160**	**$2,183**	$4,052	$3,948	$2,063

The Group's reinsurance recoverable on unpaid and paid losses as at 31 December 2014 and 2013 is as follows:

(US dollars in millions)	**2014**	2013
Gross reinsurance recoverable	**$1,728**	$1,509
Provision for uncollectible balances	**(23)**	(29)
Net reinsurance recoverable	**$1,705**	$1,480

The Group evaluates the financial condition of its reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. All current reinsurers have a 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 reduced ratings which have led to the need for the provision.

At 31 December 2014 there were five counterparties which accounted for 5 per cent or more of the total reinsurance recoverable balance.

	% of reinsurance recoverable	Security
Munich Re	20%	A+ (A.M. Best)
Syndicate 6111 (Catlin Names SPS)	10%	A (A.M. Best)
Syndicate 2088 (China Re SPS)	6%	A (A.M. Best)
Partner Re	6%	A (A.M. Best)
Transatlantic Re	5%	A (A.M. Best)

The Syndicate 6111 and Syndicate 2088 contracts both operate on a funds-withheld basis.

9 Subordinated debt

The Group's outstanding subordinated debt as at 31 December 2014 and 2013 consisted of the following:

(US dollars in millions)	**2014**	**Rate of return %**	2013	Rate of return %
Variable rate, face amount €7, due 15 March 2035	**$9**	**3.23**	$10	3.13
Variable rate, face amount $27, due 15 March 2036	**27**	**3.44**	27	3.49
Variable rate, face amount $31, due 15 September 2036	**31**	**3.37**	31	3.42
Variable rate, face amount $10, due 15 September 2036	**10**	**3.27**	10	3.32
Variable rate, face amount €11, due 15 September 2036	**13**	**3.23**	15	3.17
Total subordinated debt	**$90**		$93	

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 were 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 were each redeemable at the discretion of the issuer on 15 September 2011. All outstanding subordinated debt is fully amortised.

10 Intangible assets and goodwill

The Group's intangible assets relate to the purchase of syndicate capacity. 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 2014 and 2013 consist of the following:

(US dollars in millions)	**2014**	2013
Goodwill	**$80**	$80
Indefinite life intangibles	**640**	640
Total intangible assets and goodwill	**$720**	$720

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

Indefinite life intangible assets and goodwill are tested annually for impairment as at 30 September. For the purposes of impairment testing, $14 million of goodwill is attributable to the US segment, the remainder to the London/UK segment. In 2014 and 2013, management determined that no impairment of intangibles or goodwill was required.

11 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 2035.

United Kingdom

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

Income from the Group's operations at Lloyd's is also subject to US income taxes. Under a Closing Agreement between Lloyd's and the Internal Revenue Service ('IRS'), Lloyd's Members pay US income tax on US connected income written by Lloyd's syndicates. US income tax due on this US connected income is calculated by Lloyd's and remitted directly to the IRS and is charged by Lloyd's to Members in proportion to their participation on the relevant syndicates. Similar arrangements exist for Lloyd's Members in Singapore, Canada and Japan under which Lloyd's calculate and remit income taxes directly to the local tax authorities and charge the expense to Members accordingly.

The Group's Corporate Members are all subject to these Lloyd's tax arrangements but, as UK tax residents, will receive UK corporation tax credits for any foreign income tax incurred up to the value of the equivalent UK corporation tax charged on the foreign income.

United States

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

Switzerland

The Group also operates in Switzerland through its subsidiaries, and their income is subject to Swiss federal and cantonal taxes.

Other international income taxes

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

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

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11 Taxation continued

The income tax expense for the year ended 31 December 2014 and 2013 is as follows:

(US dollars in millions)	2014	2013
Current tax expense	**$157**	$28
Deferred tax benefit	**(123)**	(12)
Change in uncertain tax positions	**(8)**	–
Rate change on deferred tax	**–**	(20)
Expense/(benefit) for income taxes	**$26**	$(4)

The effective tax rate for the Group is 5.3 per cent (2013: negative 0.9 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 2014 and 2013 is provided below. The weighted average expected tax expense has been calculated using pre-tax accounting income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate.

(US dollars in millions)	2014	2013
Expected tax benefit at weighted average rate	**$(2)**	$(34)
Permanent differences:		
Disallowed expenses and losses not recognised	**16**	49
Prior year adjustments including changes in uncertain tax positions	**(5)**	1
Rate change	**–**	(20)
Adjustment to taxable income	**17**	–
Expense/(benefit) for income taxes	**$26**	$(4)

The components of the Group's net deferred tax liability as at 31 December 2014 and 2013 are as follows:

(US dollars in millions)	2014	2013
Deferred tax assets:		
Net operating loss carry forwards	**$17**	$40
Foreign tax credits	**17**	65
Capital allowances	**12**	11
Other timing differences	**72**	47
Valuation allowance	**(69)**	(65)
Total deferred tax assets	**$49**	$98
Deferred tax liabilities:		
Untaxed profits	**(15)**	(146)
Intangible assets arising on business combination	**(73)**	(73)
Syndicate capacity	**(20)**	(19)
Total deferred tax liabilities	**$(108)**	$(238)
Net deferred tax liability	**$(59)**	$(140)

As at 31 December 2014 the Group had operating tax losses carried forward of $120 million (2013: $186 million) which are available to offset future taxable income. The potential deferred tax asset on these losses is $17 million. However, the Group has recognised a full valuation allowance of $13 million against the losses carried forward in the UK and Luxembourg and a partial valuation allowance against those losses in Switzerland. Consequently, the Group has only recognised a net deferred tax asset of $4 million in respect of operating losses carried forward. The remaining component of the total valuation allowance of $69 million is made up of $56 million in respect of other timing differences arising in the US entities.

11 Taxation continued

Uncertain tax positions

As at 31 December 2014 the liability amount of uncertain tax benefits was $7 million (2013: $15 million).

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

(US dollars in millions)	**2014**	2013
Unrecognised tax benefits balance at 1 January	**$15**	$15
Gross decrease in tax positions of prior years	**(8)**	–
Unrecognised tax benefits balance at 31 December	**$7**	$15

The Group does not believe it will be subject to any penalties in any open tax years and has not accrued any such amounts. The Group accrues interest and penalties (if applicable) as income tax expenses in the consolidated financial statements. The Group did not pay or accrue any interest or penalties in 2014 or 2013 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	2012–2014
United States	2011–2014
Switzerland	2012–2014

12 Stockholders' equity

The following sets out the number and par value of shares authorised, issued and outstanding as at 31 December 2014 and 2013:

	2014	2013
Common stock, par value $0.01		
Authorised	**500,000,000**	500,000,000
Issued	**362,559,871**	362,053,537
Stock held by Employee Benefit Trust	**(3,504,016)**	(4,286,374)
Outstanding	**359,055,855**	357,767,163
Preferred stock issued by consolidated subsidiary, par value $0.01		
Authorised, issued and outstanding	**600,000**	600,000

The following table outlines the changes in common stock issued during 2014 and 2013:

	2014	2013
Balance, 1 January	**362,053,537**	361,824,004
Exercise of stock options	**506,334**	229,533
Balance, 31 December	**362,559,871**	362,053,537

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12 Stockholders' equity continued

Treasury stock

Through an Employee Benefit Trust ('EBT'), the Group holds shares that will be used to satisfy Performance Share Plan ('PSP') and/or other employee share plan awards if and when they vest and become exercisable. During 2014, the Group through the EBT purchased 4,661,154 of the Group's shares at an average price of $8.80 (£5.27) per unit. The total amount paid for treasury stock of $42 million is shown as a deduction to stockholders' equity. The cumulative cost of shares held by the EBT of $39 million is shown as a deduction to stockholders' equity.

Non-controlling preferred stock

Catlin Bermuda is a consolidated subsidiary whose common stock is wholly owned by the Company. In 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 non-controlling 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

Dividends on common stock

On 20 March 2014 the Group paid a final dividend on the common stock relating to the 2013 financial year of 21.0 pence per share (34.3 cents per share) to stockholders of record at the close of business on 21 February 2014. The total dividend paid for the 2013 financial year was 31.0 pence per share (49.8 cents per share).

On 22 September 2014, the Group paid an interim dividend relating to the 2014 financial year of 10.5 pence per share (17.7 cents per share) to stockholders of record on 22 August 2014.

Non-controlling preferred stock dividend

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

13 Employee stock compensation schemes

The Group has several employee schemes in place, of which the most significant are the Performance Share Plan ('PSP') and the Incentive Share Plan ('ISP'). From 2014, awards are made under the PSP adopted in 2013. This replaces the previous PSP, adopted in 2004, under which awards were made in 2013 and prior years. The first ISP awards were made in 2014. In addition, the Group also has a Deferred Bonus Share Plan and three Employee Share Plans in place. 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 2014 was $60 million (2013: $50 million), included in administrative and other expenses.

Performance Share Plan

In February 2014, Standard Awards comprising a total of 3,896,040 options with $nil exercise price and 1,479,398 non-vested shares (total of 5,375,438 securities) were awarded to Group employees under the PSP. In August 2014, a further 60,085 options with $nil exercise price and 67,321 non-vested shares (total of 127,406 securities) were awarded, resulting in a total of 5,502,844 securities granted to Group employees under the PSP in 2014. Up to half of the securities will vest in 2017 and up to half will vest in 2018, subject to certain performance conditions. Additional Awards comprising 183,705 options with $nil exercise price were also granted. Up to half of these securities will vest in 2017 and up to half will vest in 2018, subject to certain market-based conditions.

13 Employee stock compensation schemes continued

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 of 0–6 per cent depending on the award. This value is charged to the Consolidated Income Statements over the vesting period, with a corresponding adjustment to equity. The charge 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 total amount of expense relating to PSP for the year ended 31 December 2014 was $53 million (2013: $50 million).

Incentive Share Plan

In February 2014 a total of 2,168,384 options with $nil exercise price and 869,670 non-vested shares (total of 3,038,054 securities) were awarded to Group employees under the Group's Incentive Share Plan ('ISP'). In August 2014, a further 56,319 options with $nil exercise price and 5,722 non-vested shares (total of 62,041 securities) were awarded, resulting in a total of 3,100,095 securities granted to Group employees under the ISP in 2014. Half of the securities will vest in 2017 and half will vest in 2018, subject to continued service.

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 of 5 per cent. This value is charged to the Consolidated Income Statements over the vesting period, with a corresponding adjustment to equity. The charge is revised at each balance sheet date to take account of any changes that may be required to the attrition assumption. The total amount of expense relating to ISP for the year ended 31 December 2014 was $7 million (2013: $nil).

The table below shows the PSP and ISP awards as at 31 December 2014 and activity during 2014.

	PSP Standard Awards		PSP Additional Awards		ISP Awards	
	Number of awards	Weighted average fair value	Number of awards	Weighted average fair value	Number of awards	Weighted average fair value
Outstanding, 1 January 2014	35,645,656	$9.64	–	–	–	–
Granted during year	5,502,844	$9.18	183,705	$5.85	3,100,095	$9.18
Forfeited during year	(6,757,674)	$8.79	–	–	(161,583)	$8.79
Exercised during year	(3,948,209)	$8.79	–	–	–	–
Outstanding, 31 December 2014	30,442,617	$10.47	183,705	$7.97	2,938,512	$10.47
Exercisable, end of year	1,208,094	$10.47	–	–	–	–

The total fair value of PSP Standard Awards vested during the year was $35 million (2013: $42 million).

The following table provides further information on the PSP and ISP securities as at 31 December 2014.

(US dollars in millions)	PSP Standard Awards	PSP Additional Awards	ISP Awards
Weighted average remaining contractual life	8 years	9 years	9 years
Maximum contractual term of equity share options	9 years	9 years	9 years
Weighted average period of recognition	1 year	3 years	3 years
Future compensation relating to unvested awards	$54	$0.2	$17

Under the terms of the Deferred Bonus Share Plan, any bonus award exceeding 130 per cent of base salary is deferred into shares. In March 2014, conditional rights to acquire 113,958 shares were awarded on this basis. These are eligible to vest in equal proportions in 2017, 2018 and 2019.

The Group also has three All-Employee Share Plans in place. The expense related to the All-Employee Share Plans is considered to be insignificant.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2013

14 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year.

Diluted earnings per share is calculated by dividing the earnings attributable to common stockholders by the weighted average number of common shares issued and outstanding, adjusted to assume conversion of all dilutive potential common shares. The Company has the following potentially dilutive instruments outstanding during the years presented:

(i) PSP;
(ii) ISP;
(iii) Deferred Bonus Shares; and
(iv) All-Employee Share Plans.

Income to common stockholders is arrived at after deducting non-controlling preferred stock dividends of $44 million (2013: $44 million).

Reconciliations of the number of shares used in the calculations as at 31 December 2014 and 2013 are set out below.

	2014	2013
Weighted average number of shares	**358,487,807**	355,350,786
Dilution effect of stock options and non-vested shares	**17,653,686**	8,461,337
Weighted average number of shares on a diluted basis	**376,141,493**	363,812,123

Earnings per common share		
Basic	**$1.17**	$1.11
Diluted	**$1.11**	$1.08

With effect from 2014, securities awarded under the PSP were included in the computation of diluted earnings per share to the extent that the full term performance conditions necessary for these securities to vest were met as at 31 December. The 2013 comparatives have been revised on this basis.

15 Other comprehensive income/(loss)

The following table details the individual components of other comprehensive income/(loss) for 2014 and 2013:

(US dollars in millions)	Amount before tax	Tax (expense)/ benefit	Amount after tax
2014			
Cumulative translation adjustments	**$(41)**	**$(3)**	**$(44)**
Defined benefit pension plan	**1**	**–**	**1**
Other comprehensive income/(loss)	**$(40)**	**$(3)**	**$(43)**
2013			
Cumulative translation adjustments	$(14)	$8	$(6)
Defined benefit pension plan	–	–	–
Other comprehensive income/(loss)	$(14)	$8	$(6)

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

(US dollars in millions)	**2014**	2013
Cumulative translation adjustments	**$(247)**	$(203)
Funded status of defined benefit pension plan adjustment	**4**	3
Accumulated other comprehensive loss	**$(243)**	$(200)

16 Pension commitments

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

In the UK the Group operates defined contribution schemes for certain directors and employees, which are administered by third-party insurance companies. The pension cost for the UK scheme was $16 million for the year ended 31 December 2014 (2013: $14 million).

In Bermuda the Group operates a defined contribution scheme, under which the Group contributes a specified percentage of each employee's earnings. The pension cost for the Bermuda scheme was $1 million for the year ended 31 December 2014 (2013: $1 million).

In the US the Group has adopted a 401(k) Profit Sharing Plan qualified under the Internal Revenue Code and a Non-Qualified Deferred Compensation Plan under which the Group contributes a specified percentage of each employee's earnings. The pension cost for the US scheme was $6 million for the year ended 31 December 2014 (2013: $6 million).

In Switzerland 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 Switzerland scheme was $2 million for the year ended 31 December 2014 (2013: $2 million).

In connection with the acquisition of Wellington in December 2006, the Group assumed liabilities associated with a defined benefit pension scheme which Wellington sponsored. The scheme has been closed to new members since 1993. The current membership consists only of pensioners and deferred members. Projected benefit obligations at 31 December 2014 were $29 million (2013: $29 million) and fair value of plan assets was $34 million (2013: $32 million). Plan assets are substantially all invested in corporate bonds, valued using Level 2 inputs in the fair value hierarchy described in Note 6. The pension costs for the defined benefit scheme were insignificant for the years ended 31 December 2014 and 2013.

Pension costs for pension schemes in other countries of operation are considered individually insignificant but in aggregate amount to $5 million (2013: $4 million).

17 Statutory financial data

The statutory capital and surplus of each of the Group's principal operating subsidiaries, excluding Catlin Syndicate, is in excess of regulatory requirements. The regulatory requirements shown in the table below are based on the latest available data:

US dollars in millions	**2014**	2013
United Kingdom	**$201**	$183
United States	**129**	109
Switzerland	**1,148**	1,231
Bermuda	**463**	792

The Group also has sufficient capital available to meet Funds at Lloyd's requirements of $1,178 million (2013: $1,352 million).

The Group's ability to pay dividends is subject to certain regulatory restrictions on the payment of dividends by its subsidiaries. The payment of such dividends is limited by applicable laws and statutory requirements of the jurisdictions in which the Group operates.

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

Notes to the Consolidated Financial Statements

For the years ended 31 December 2014 and 2013

18 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 arranges letter of credit facilities to support its reinsurance business and for general corporate purposes.

As at 31 December 2014, the Group has access to the following letter of credit facilities:

- A $450 million unsecured multi-bank facility available for utilisation by appointed members of the Group and guaranteed by the Company. As at 31 December 2014, $197 million of letters of credit were issued under this facility. The facility has a termination date of 31 December 2016.
- A bilateral facility available for utilisation by Catlin Bermuda, collateralised by pledged financial assets. As at 31 December 2014, $166 million of letters of credit were issued under this facility.
- A bilateral facility available for utilisation by Catlin Re Switzerland, collateralised by pledged financial assets. As at 31 December 2014, $48 million of letters of credit were issued under this facility.
- Four bilateral facilities available for utilisation by Catlin Bermuda and guaranteed by the Company for Funds at Lloyd's purposes, amounting to a total of $375 million. As at 31 December 2014, $375 million of letters of credit were issued under these facilities. One of the facilities has an expiry date of 31 December 2017, while the other three have expiry dates of 31 December 2018.
- An Australian $50 million ($41 million) unsecured bilateral facility, available for utilisation by appointed members of the Group and guaranteed by the Company, for the purpose of providing collateral to Australian beneficiaries. As at 31 December 2014, Australian $49 million ($40 million) of letters of credit were issued under this facility.
- Two unsecured bilateral facilities, available for utilisation by appointed members of the Group and guaranteed by the Company amounting to $150 million. As at 31 December 2014, $109 million of letters of credit were issued under this facility.
- A facility managed by Lloyd's, acting for the Syndicates. As at 31 December 2014, $9 million of letters of credit were issued under this facility.
- Catlin US has letters of credit amounting to $1 million issued for the benefit of various parties.

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 2014 are as follows:

(US dollars in millions)

2015	$28
2016	26
2017	22
2018	21
2019 and thereafter	87
Total	**$184**

Under non-cancellable sub-lease agreements, the Group is entitled to receive future minimum sub-lease payments of $13 million (2013: $22 million).

19 Related parties

The Group purchased services from Catlin Estates Limited and Burnhope Lodge, both of which are controlled by a Director of the Group. The cost of the services purchased from Catlin Estates Limited and Burnhope Lodge in 2014 and 2013 was insignificant to the Group Financial Statements.

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

20 Subsequent events

Recommended acquisition

On 9 January 2015, the Group announced that it had agreed the terms of a recommended cash and share acquisition of the entire issued and to be issued share capital of the Company by XL Group plc ('XL'), a company domiciled in Ireland and listed on the New York Stock Exchange and the Bermuda Stock Exchange. It is intended that the acquisition will be effected by means of a two-step, integrated process comprising a scheme of arrangement under Section 99 of the Bermuda Companies Act followed immediately by a merger under Section 104H of the Bermuda Companies Act.

The acquisition provides for a consideration of 388 pence in cash and 0.130 XL shares for each share in the Company, subject to a mix and match arrangement, plus the 2014 final dividend of 22 pence. In addition, subject to the completion of the disposal of Catlin's investment in Box Innovation Group Limited, it has been announced that Catlin shareholders will receive a special dividend of approximately 12 pence per share.

The acquisition is conditional on, among other things, the approval of Catlin shareholders, the sanction of the Scheme by the Supreme Court of Bermuda and clearances from regulators

The terms of the recommended acquisition did not result in any impact on the Group's financial position or results of operations, at or for the year ended 31 December 2014.

Proposed dividend

On 9 February 2015 the Board approved a proposed final dividend of 22.0 pence per share (33.5 cents per share), payable on 19 March 2015 to stockholders of record at the close of business on 20 February 2015. The final dividend is payable in sterling.

Non-controlling preferred stock dividend

The Board of Catlin Bermuda approved a dividend of $22 million to the stockholders of the non-cumulative perpetual non-controlling preferred stock. This dividend was paid on 19 January 2015.

Management has evaluated subsequent events until 10 February 2015, the date of issuance of the financial statements.

Board of Directors

John Barton
Chairman
John Barton was appointed as a Non-Executive Director of Catlin in December 2011 and as Chairman of Catlin in May 2012. He has wide experience in the insurance industry and has served as a Director of a diverse range of companies. He was Chief Executive of insurance brokerage JIB Group for 13 years and later served as Chairman of Jardine Lloyd Thompson Group plc (the successor company to JIB). He also served as Chairman of Cable & Wireless Worldwide plc, Wellington Underwriting plc and Brit Holdings PLC, as well as a Non-Executive Director of W H Smith PLC and Hammerson plc. He is currently Chairman of Next plc and easyJet plc.

Stephen Catlin
Chief Executive and Deputy Chairman
Stephen Catlin began his insurance career in 1973, joining BL Evens & Others on Syndicate 264 at Lloyd's. He founded Catlin Underwriting Agencies Limited in 1984 and was the Active Underwriter of Syndicate 1003 and later Syndicate 2003 until May 2003. From 1996 to 2002, he was the Lloyd's nominated Director of Equitas Holdings Limited. He served as Chairman of the Lloyd's Market Association, the trade association representing the interests of Lloyd's underwriters and underwriting agents, from 2000 until 2003. He was a member of the Council of Lloyd's from 2002 until 2004 and a member of the Lloyd's Franchise Board from 2003 until 2006. He was President of the Insurance Institute of London in 2010–2011. He is currently Chairman of the Association of Bermuda Insurers and Reinsurers and is a Visiting Fellow at the Oxford University Centre for Corporate Reputation. He will be inducted into the Insurance Hall of Fame in 2015.

Benjamin Meuli
Chief Financial Officer
Benjamin Meuli was appointed an Executive Director of Catlin in June 2009 and became Chief Financial Officer in September 2009. He served as Chief Investment Officer and a member of the Executive Board of Swiss Re from 2004 to 2008. From 1998 to 2004 he served as a Managing Director of Morgan Stanley with primary responsibility for relationships with large multinational insurance groups. Prior to joining Morgan Stanley, he had a 20-year career with JP Morgan where he served as a Managing Director in charge of European Debt Capital Markets and the European Financial Institutions Group. He also served as Chief Executive of JP Morgan Life Assurance Ltd.

Claus-Michael Dill
Non-Executive Director
Claus-Michael Dill was appointed as a Non-Executive Director of Catlin in May 2014. He was formerly Chief Executive Officer of AXA Konzern AG in Cologne, responsible for operations in Germany and Central Europe. He was also a member of the AXA Group Executive Committee. Prior to joining AXA, he was a member of the Group Management Board of Gerling Konzern AG in Cologne, responsible for asset management/financials and strategic restructuring. He previously held management positions at Swiss Re and was a management consultant with McKinsey & Co. He also served as Chief Executive Officer of Damp Holding AG. He is currently Chairman of the Supervisory Board of Cologne Re and a member of the Supervisory Boards of MLP AG and HUK Coburg AG.

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

Beatrice Hollond
Non-Executive Director
Beatrice Hollond was appointed as a Non-Executive Director of Catlin in May 2014. She is Chairman of Keystone Investment Trust plc and a Non-Executive Director of Templeton Emerging Markets Investment Trust Plc and Henderson Smaller Companies Investment Trust Plc. She has had a long career in the investment industry, working initially at Morgan Grenfell Asset Management as a UK equity analyst and at Credit Suisse Asset Management where she became Managing Director for Global Fixed Income business. She serves as a Trustee of the Esmee Fairbairn Foundation and a member of its Investment Committee.

Fiona Luck
Non-Executive Director
Fiona Luck was appointed as a Non-Executive Director of Catlin in August 2012. She has had nearly 30 years of experience as an executive at both insurance companies and brokerages. She was an executive at XL Capital Ltd. in Bermuda where she held several roles including Special Advisor to the CEO, Executive Vice President and Chief of Staff, and Executive Vice President for Group Operations. She also was Executive Vice President of ACE Limited and Managing Director of Marsh & McLennan Inc. She is a Non-Executive Director of the Bermuda Monetary Authority. She is a Chartered Accountant who began her career at KPMG (Thomson McClintock).

Nicholas Lyons
Senior Independent Non-Executive Director
Nicholas Lyons was appointed as a Non-Executive Director of Catlin in August 2008. He was formerly a Managing Director of Lehman Brothers in London, where he headed the European Financial Institutions Group, from which he retired in 2003. Prior to joining Lehman Brothers, he held executive positions at JP Morgan and Salomon Brothers in London. He is Non-Executive Chairman of Miller Insurance Services LLP, an international specialist insurance and reinsurance broker based in London, as well as Chairman of Longbow Capital LLP, Clipstone Logistics REIT and a Non-Executive Director of Friends Life Group plc. He also served as a Non-Executive Director of Quayle Munro plc.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2014.

Results and dividends

The Consolidated Income Statements on page 89 show net income to common stockholders of US$418 million (2013: US$392 million).

The Directors propose a final dividend of 22.0 pence per share, payable on 19 March 2015 to shareholders on the register at the close of business on 20 February 2015. An interim dividend of 10.5 pence per share was paid on 22 September 2014. The Board has also expressed its intention to declare a special dividend of approximately 12 pence per share to be payable upon completion of the Group's disposal of its interest in Box Innovation Group Limited.

Principal activities and review of business and other disclosures

Details of the Company's principal activities and a review of the business are included in the Strategic Report, including the Chairman's Statement, the Chief Executive's Review and other material, on pages 1 to 86. Reports on greenhouse emissions and workplace diversity are found on pages 70 and 62, respectively.

Substantial shareholdings

At 9 February 2015, the Company had been notified pursuant to the Financial Services Authority's Disclosure and Transparency Rules of the following significant holdings of voting rights in its shares:

	Number of shares	Percentage of shares in issue[1]
BlackRock	20,017,486	5%

1 Based on shares in issue at 31 December 2014 of 362,599,871.

Directors

The current Directors of the Company and their biographical details are shown on page 116. Particulars of their interests in shares are given in this report and in the Directors' Remuneration Report on page 135. Bruce Carnegie-Brown retired as a Director on 13 May 2014. Claus-Michael Dill and Beatrice Hollond were appointed as Directors on 13 May 2014. In accordance with the UK Corporate Governance Code, all Directors will offer themselves for election as Directors at the 2015 Annual General Meeting ('AGM'). The Board has appraised the performance and reviewed the skills, experience and expected contributions of the Directors seeking election, in the context of the Board's objectives and composition, and on that basis recommends the election of each.

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 2014 and at 1 January 2014, including the beneficial interests of any connected person, are set out in the table below:

	31 December 2014 number of common shares	1 January 2014 number of common shares
John Barton	50,000	50,000
Stephen Catlin	6,136,333	5,912,450
Stephen Catlin as one of the trustees of Catlin Settlement Trust	685,000	685,000
Claus-Michael Dill	–	–
Robert Gowdy	29,350	29,350
Beatrice Hollond	–	–
Nicholas Lyons	–	–
Fiona Luck	5,000	5,000
Benjamin Meuli	1,003,378	714,689

1 There has been no change in these interests since 31 December 2014 up to the date of this report.

Directors' Report

Directors' share options
None of the Non-Executive Directors holds share options in the Company. Details of the Executive Directors' share options are disclosed in the Directors' Remuneration Report on page 135.

Corporate governance
The Corporate Governance Report, which includes reports from the Board's Audit and Nomination Committees, follows this report on page 122. The Directors' Remuneration Report includes details of the Board's Compensation Committee and is subject to approval by shareholders at the AGM.

Strategic Report
The Strategic Report and the Financial Review, which include details of the Group's development and performance and the management report required by Rule 4.1.8 of the Disclosure and Transparency Rules, are set out on pages 1 to 86.

Directors' Responsibility Statement pursuant to Disclosure and Transparency Rule 4
The Directors confirm that, to the best of their knowledge:

- the Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group; and

- the management report incorporated into the Strategic Report and the Financial Review includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Corporate responsibility
The Board and the Company remain committed to high standards of corporate responsibility. Details of the Company's social, environmental and ethical policies as well as its policy on treatment of its employees are set forth in the report on the Company's Culture on page 61.

Political donations
Neither the Company nor any of its subsidiaries made any political donations during the year.

Share capital
General
As at 31 December 2014, the Company had an authorised share capital of US$5,000,000 divided into 500,000,000 common shares of US$0.01 each ('Common Shares'), of which 362,599,871 were in issue on 31 December 2014. The Company's shares are admitted to the Official List and are traded on the London Stock Exchange ('LSE'). The Common Shares themselves are not admitted to CREST (the electronic settlement system for the LSE), but dematerialised depositary interests representing the underlying Common Shares issued by Capita IRG Trustees Limited ('Capita Trustees') can be held and transferred through the CREST system ('Depositary Interests'). The rights attaching to the Common Shares are governed by the Bermuda Companies Act 1981 and the Company's Bye-Laws.

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

A poll may be demanded by at least three shareholders present in person or by proxy, or by the Chairman or by any shareholder(s) present in person or by proxy representing one-tenth of the total voting rights of shareholders entitled to vote at any such meeting. On a poll every shareholder who is present in person or by proxy or (being a corporation) is present by a representative has one vote for every Common Share of which he is the holder. No shareholder may vote or be included in a quorum if any call or other sum payable by him to the Company in respect of any share remains unpaid.

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

The Board may, subject to the Bye-Laws and Section 54 of the Bermuda Companies Act, declare a dividend to be paid to shareholders in proportion to the number of shares held by them, and such dividend may be paid in cash or wholly or partly in fully or partly paid shares. Dividends unclaimed within six years of declaration are forfeited and revert to the Company. In respect of the Depositary Interests, under the terms of the arrangements between the Company and Capita Trustees, Capita Trustees will pay dividends due on the underlying Common Shares to the holders of such Depositary Interests, although the Company may pay dividends directly to the holders of the Depositary Interests should it so wish.

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

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

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

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

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

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

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

Power to issue shares
At the 2014 Annual General Meeting ('AGM'), authority was given to the Directors to allot unissued relevant securities (as defined in the Bye-Laws) in the Company up to a maximum aggregate nominal value of US$1,205,709, being an amount equal to one-third of the shares in issue on 10 March 2014. In addition, in accordance with the Association of British Insurers guidelines, the Directors were given authority to allot relevant securities in the Company up to a maximum aggregate nominal value of US$1,205,709 for a fully pre-emptive rights issue. Neither of these authorities was used by the Company. The Directors are seeking approval from shareholders to renew these authorities at the AGM to be held on 6 August 2015, further details of which will be set out in the Notice of the Annual General Meeting.

A further special resolution passed at the 2014 AGM granted authority to the Directors to allot equity securities (as defined in the Bye-Laws) in the Company for cash on (a) a non-pre-emptive basis pursuant to a rights issue or other offer to shareholders and (b) otherwise up to an aggregate nominal value of US$181,037 (being equal to 5 per cent of the issued share capital of the Company as at 10 March 2014). That authority was not used by the Company. The Directors are also seeking approval from shareholders to renew this authority at the 2015 AGM, further details of which will be set out in the circular to shareholders.

Repurchase of shares
At the 2014 AGM, shareholders renewed the Company's authority to purchase a maximum of 36,207,503 Common Shares. During the year this authority was not used by the Company. The Company is seeking from shareholders a renewal of the Directors' authority to purchase the Company's shares at the 2015 AGM, further details of which will be set out in the circular to shareholders.

Significant agreements
On 9 January 2015, the Company entered into an Implementation Agreement and related arrangements with XL Group plc in connection with a recommended offer for all of the issued and to be issued share capital of the Company.

Directors' Report

The Company and certain subsidiaries participate in a US$450 million letter of credit facility (the 'Facility') with a syndicate of banks. Under the terms of the Facility, upon a change of control, the parties have a 30-day period in which to negotiate satisfactory terms upon which to continue with the Facility. If no such agreement is reached within the 30-day period, the banks are not obliged to participate further in the Facility and may require, on 30 days' notice, that all liabilities under outstanding letters of credit be reduced to zero or otherwise secured by the provision of full collateral cover. The Company and certain subsidiaries have also entered into three US$100 million letter of credit facilities and one US$75 million letter of credit facility in support of Funds at Lloyd's, as well as one A$50 million letter of credit facility to provide letters of credit to Australian beneficiaries or to the trustee of the Lloyd's Australian Trust; those agreements contain change of control provisions identical to the Facility above. Two US$75 million facilities have been entered into by the Company and certain subsidiaries and can be used as revolving credit facilities and/or letter of credit facilities; those agreements contain change of control provisions identical to the Facility above.

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

Employee share schemes

Details of the Company's employee share plans can be found on page 110. Under the terms of the trust deed governing the Company's Employee Benefit Trust, the trustees are not allowed to vote in respect of any shares held in the trust.

Annual General Meeting

The Notice of Annual General Meeting, to be held at noon on Thursday 6 August 2015 at the Company's offices at Washington House, 5th Floor, 16 Church Street, Hamilton, Bermuda HM 11, will be contained in the circular to shareholders.

Auditors

Resolutions are to be proposed at the AGM to re-appoint PricewaterhouseCoopers Ltd. 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
9 February 2015

Chairman's Statement on Corporate Governance

The Board of Directors aims to provide effective and accountable leadership to Catlin Group Limited for the benefit of our shareholders, policyholders, employees and other stakeholders. The Corporate Governance Report details our governance arrangements and explains our compliance with the UK Corporate Governance Code during 2014.

Before turning to that technical report, however, I would like to provide a few examples of how the arrangements work in practice and some of the things that we as a Board do to provide effective leadership and promote Catlin's long-term success.

The Board takes seriously its responsibility for providing strategic leadership to the Group. In addition to its ongoing engagement with the executive and the business, the Board holds annual 'away days' together with the Group Executive Committee. These days away from the office foster consideration of and debate on long-term strategic issues. During 2014, we followed up on various themes discussed in 2013, notably the consideration of all strategic alternatives for the Group. One of the outputs of those discussions was the proposed transaction with XL Group plc.

The Board continues to work to ensure that the Company's strategy is consistent with the goals of our owners, the shareholders. The Company has an extensive investor relations programme, and we consulted widely with our shareholders during the year and in connection with the XL offer. This year, the Company's strategy has delivered value to shareholders with a combination of strong results, an increased final dividend, an expected special dividend following completion of the sale of our stake in Box Innovation Group Limited and the XL offer.

The Board continues to foster diversity of background and experience within Catlin and around the Board table. During 2014, we added two new Directors. One, Claus-Michael Dill, brings continental European insurance and reinsurance experience to the Board, consistent with the Group's growing profile in its European hub. The second, Beatrice Hollond, brings a wealth of investment management experience to the Board at a time when investment returns are extremely challenging.

Catlin is at a crossroads, with a recommended offer by XL outstanding and subject only to shareholder, regulatory, competition and other usual closing conditions. Over the past year, during the period pending acceptance and completion, and for so long as this Board remains with Catlin, it remains our objective to provide effective leadership, promote a culture of transparency and accountability, understand our business on a practical level and to promote the success of our business for all of our stakeholders.

John Barton
Chairman

Corporate Governance Report

Overview, basis of reporting and the UK Corporate Governance Code

The Company, which is incorporated in Bermuda, aims to apply best practice in corporate governance and complies with all Bermuda statutory requirements and the UK Corporate Governance Code (the 'Code'). The Company complied in all material respects with the Code during 2014; the Company's auditors have reviewed the Company's compliance to the extent required by the UK Financial Conduct Authority for review by auditors of UK-listed companies.

Board of Directors

The Board of Directors comprises a Non-Executive Chairman, two Executive Directors and five Non-Executive Directors. One of the Executive Directors, Stephen Catlin, serves as Deputy Chairman. There was one change to Board composition during 2014, when Bruce Carnegie-Brown retired, and Claus-Michael Dill and Beatrice Hollond were elected, all upon conclusion of the Annual General Meeting ('AGM'). All other incumbent Directors were re-elected at the AGM; there have been no other changes to Board membership during 2014 and 2015 up to the date of this Report.

There were no material changes during 2014 to the commitments of the Chairman, John Barton.

Independence of Directors

The Board considers all of the Non-Executive Directors – Nicholas Lyons (Senior Independent Director), Claus-Michael Dill, Robert Gowdy, Beatrice Hollond and Fiona Luck – to be independent within the meaning of the Code.

Mr Gowdy and Ms Luck also each serve as an Independent Director of the Group's US and Bermuda insurance subsidiaries, respectively. Their contributions at those regulated insurance companies are of significant benefit to the Group. Neither Mr Gowdy nor Ms Luck has any executive involvement in the Company or any of its subsidiaries, and the Board considers that they remain independent in principle and in practice.

During 2014, Mr Carnegie-Brown and Mr Lyons served as Directors of Aon UK Limited and Miller Insurance Services LLP, respectively, two insurance brokers with whom the Group has arm's-length trading relationships. The fact of those trading relationships did and does not, in the opinion of the Board, affect their independence, and both have remained independent in principle and in practice. The Board believes that their knowledge of insurance broking is highly relevant to the Group's operations, and both Directors would recuse themselves in the event any Board discussion presented a possible conflict of interest.

Mr Barton, Non-Executive Chairman, was independent at the time of his appointment as a Director in 2011, and he remains non-executive. None of the other Non-Executive Directors has any executive or other role or relationship with the Company or management that would affect his or her objectivity, and all have proven to be independent in character and judgment. With four or five independent Non-Executive Directors, a Non-Executive Chairman and two Executive Directors, the Board's composition complied with the Code throughout 2014.

Board leadership

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, which include the adoption of strategic or business plans, major transactions, investment strategy, major treasury or financial decisions, significant borrowing, changes to capital structure, issuance of equity or debt securities, approval of public financial statements and the appointment of selected members of senior management. The Board exercised those responsibilities throughout the year, considering, debating and/or approving, for example, the potential offer by XL Group plc for all of the issued and to be issued share capital of Catlin, the annual strategic business plan, the Group risk appetite, various material credit facilities, the investment plan and dividend strategy.

To discharge its prudential responsibilities, the Board (with assistance from the Audit Committee) pays particular attention to the Group's capital and risk management systems. In addition to receiving written reports from the Chief Risk Officer, General Counsel and Heads of Compliance and Internal Audit for every meeting, the Board (and/or Audit Committee) heard regular presentations throughout the year from the Chief Risk Officer and other risk staff on the Group capital model, regulatory capital requirements, and other risk and capital topics.

The Board, with support from the Audit Committee, 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.

To safeguard continuity of leadership, during 2014 the Board considered succession planning for senior executives and Directors, as detailed in the report of the Nomination Committee.

The Board has adopted a formal division of responsibilities between the Chairman and the Chief Executive. The Chairman is responsible for running the Board and related matters such as Board effectiveness, induction and evaluation. Directors are required to discuss any potential conflicts of interest or potential appointments to other boards with the Chairman. The Chief Executive is responsible for the day-to-day management of the business. The Board has accordingly 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 approving 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 the terms of reference and described in the reports that follow. The Board has also delegated certain authority over management of the Company's investments to an Investment Committee of the Board.

Effectiveness

Under the leadership of the Chairman, the Board continually reviews its composition to ensure that it represents a balance of skills, experience, independence and knowledge suited to foster the long-term prosperity and success of the business. Details of that work during 2014 are included in the report of the Nomination Committee.

The Chairman also ensures that, upon appointment, new Directors receive a comprehensive induction programme covering amongst other things the Group's history and business, the competitive environment, business plans and strategy, finance, investor relations, governance, Directors' responsibilities and corporate responsibility. The Board participates in various presentations on topics of interest from time to time provided by Catlin executives and external providers.

Management regularly provides to the Board information necessary to enable the Board to perform its duties; that information is provided principally in reports covering key performance indicators, comprehensive meeting papers, discussions with executives, and the Board and committee meetings. Further information is provided on an ad hoc basis as issues of interest arise. Directors are free to request from the Executive Directors and from other executives such information as they consider appropriate and are able to discuss the business with employees at all levels. The Board is regularly updated on business, capital, risk, regulatory, legal, compliance and investor relations developments affecting the Company and its subsidiaries, including Board governance matters. The Board and its committees regularly receive presentations from outside advisors including the external auditors and actuaries, corporate brokers and investment advisors. Additional briefing materials are available to any Director upon request. The Board and its committees have unrestricted access to the Company's professional advisors and are authorised to take independent professional advice at the Company's expense.

During 2014, the Board undertook an effectiveness self-appraisal (following an external review during 2013). The review encompassed the Board and the Audit, Compensation, Nomination and Investment Committees and included an appraisal of the Board's input into strategy and risk, support and ongoing training, and the mix of skills and experience of the Directors. The evaluation was considered by the Board at its May 2014 meeting and certain actions and enhancements were agreed to be implemented during the year.

Other performance reviews undertaken during 2014 included:

- performance appraisals of individual Directors by the Chairman under the guidance of the Nomination Committee; and
- review of the Chairman's effectiveness by the Non-Executive Directors.

These reviews were conducted through a combination of meetings and appraisal forms, and recommendations arising from these reviews were implemented during 2014.

Other comments relating to Board and individual Director effectiveness are included in the report of the Nomination Committee.

Board meetings

The Board held five meetings during 2014; all Directors attended all meetings. The Board also held a two-day strategic planning session together with senior management. The Chairman met regularly during the year with the Non-Executive Directors.

Accountability

The Annual Report was prepared by the Company at the direction of the Board. The Directors consider that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

A detailed description of the Group's business model and how it generates and preserves value over the long term is included in the Strategic Report.

The Board is responsible for determining the Group's risk appetite. It has discussions with the Chief Risk Officer and other risk staff on key and emerging risks, usage of approved risk appetite, risk mitigation techniques, capital modelling and capital adequacy. The Board is assisted by the Audit Committee, which oversees the effectiveness of the processes and controls used by the Company to monitor and manage risk within the parameters adopted by the Board.

Internal controls

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 2014, 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.

Corporate Governance Report

A review of the effectiveness of the Company's internal controls and risk management systems during 2014 was conducted under the direction of the Audit Committee and the Board pursuant to relevant Financial Reporting Council ('FRC') and related guidance. It included a review of the documentation of internal control systems, including the extent to which those controls are risk-based and are embedded in the organisation. The results of this review were presented to the Audit Committee and Board in February 2015.

The Company has an ongoing process, as part of its risk and control framework, for identifying, evaluating and managing significant risks (the risk management programme), and this has been in place throughout 2014 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 Executive of each of the Company's underwriting hubs is responsible for directing that hub's risk management programme. The Chief Risk Officer, the Group Executive Committee and other senior executives review and monitor the identification and assessment of significant risks and the relevant control and monitoring procedures. In addition, they monitor the Company's significant risks on an ongoing basis. Action is taken where the need for further risk mitigation is identified. Internal audits are conducted on an ongoing basis as part of a risk-based plan approved and monitored by the Audit Committee.

Financial reporting controls
The Group operates a system of internal controls and risk management around its financial reporting process. The system is designed to mitigate, rather than eliminate, the risk of failure in this area. This system has been in place for the year under review and up to the date of approval of the Annual Report and financial statements. The key elements of the system are:

- Core controls and sign-offs
  The business operates a system of core controls, including authority limits, reviews and reconciliations to support the financial reporting process. These are designed to ensure the completeness and integrity of financial records throughout the Group.

  These controls seek to identify and address key financial reporting risks, including risks arising from changes in accounting standards, as well as any areas of accounting judgment.

- Financial performance monitoring and review
  The Group produces a comprehensive monthly performance report of financial results for review by executive management and the Board. This includes an explanation of variances between actual and planned performance and a summary of key performance indicators and trends.

- Actuarial review
  The Group's loss reserves are subject to an independent actuarial review on an annual basis with full reporting to the Audit Committee and Board.

- Internal audit and risk management
  The Group's internal audit function carries out periodic reviews of the financial reporting process and the underlying controls throughout the Group's operations, with formal reporting to management and the Audit Committee of recommendations for improvement. Progress on actions taken in response to internal audit reports is reported to the Audit Committee until appropriate steps are implemented to remedy each control observation.

  The Group's risk management function operates a risk register including an evaluation of all significant risks around the financial reporting process. The register is regularly reviewed and updated in conjunction with senior Finance management.

Relations with shareholders
The Company is committed to constructive ongoing dialogue with its shareholders. Presentations to analysts and investors are made by senior management, including the Executive Directors, following the half-year and full-year results announcements and at other times during the year, including an Investor Day held in November 2014. The Executive Directors and other senior executives undertake an extensive programme of one-on-one investor meetings throughout the year.

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

Shareholders are encouraged to attend the 2015 Annual General Meeting.

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 John Barton. Robert Gowdy, Fiona Luck and Nicholas Lyons were members throughout the year. Bruce Carnegie-Brown left the Committee when he retired from the Board in May. Claus-Michael Dill and Beatrice Hollond joined the Committee upon their election to the Board on the same date.

Terms of reference

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

Meetings

The Nomination Committee met four times during 2014. All members attended all meetings.

Activities

The Nomination Committee focused on the following areas during 2014:

- The Committee determined that, in accordance with the Code, all Directors wishing to remain on the Board should stand for re-election at the 2014 AGM. The Chairman and the Committee appraised the performance of each Director (and the Committee appraised the performance of the Chairman) who wished to continue serving. The Committee considered that all continued to be effective in and committed to their roles and had sufficient time to discharge their responsibilities effectively. The Board nominated them for re-election at the AGM. In addition, the Nomination Committee recommended to the Board the committee membership and Senior Independent Director changes that were effected during the year.

- The Committee considered succession plans for the Chief Executive, Group Executive Committee and the Board.

- The Committee considered the current Board composition, the skill-sets and geographical experience of its members, and the diversity of the Board as a whole. It believes that the current Board brings together relevant and complementary skills, but that improvement is always possible. As a result, the Committee commissioned a search for potential new Independent Directors whose experience and viewpoints would bolster the Board. The search was undertaken by an external search firm (Korn Ferry, which the Company uses on an occasional basis for executive recruitment) pursuant to objective criteria agreed by the Committee and intended to identify candidates with the potential to improve the Board's balance of skills and diversity of viewpoints. As a result, the Company nominated two new Directors who were elected at the 2014 AGM: Claus-Michael Dill and Beatrice Hollond.

Diversity

The Board concurs with the conclusion of the Davies Report that diversity – of skills, experience and gender, amongst other factors – improves Board performance but that quotas are not the best option for achieving it. The Group therefore pursues diversity at Board level and across the Group, and as it considers future Board composition and succession planning will seek applicants from a wide range of backgrounds to ensure that the candidates best equipped to contribute to Board deliberations are identified. At the date of this report, two out of eight Directors are women.

Report from the Audit Committee

Audit Committee and its work

Nicholas Lyons was Chairman of the Audit Committee, and Robert Gowdy and Fiona Luck were members throughout 2014. Bruce Carnegie-Brown departed the Committee, and Claus-Michael Dill and Beatrice Hollond joined, following the AGM in May 2014. The Chief Executive Officer, the Chief Financial Officer and other members of the Company's management attend meetings by invitation of the Committee. The Board is satisfied that throughout the year there has been at least one Committee member with recent and relevant financial experience.

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. In reviewing and approving the 2014 financial statements, significant issues included:

- Reserve estimates
  The Group's provisions for claims are central to the current period and future financial results. The Committee receives reporting at every meeting from the in-house reserving actuaries and at every other meeting from external actuaries. For the full-year results, the Committee reviewed detailed reserving analyses from each and considered key reserving risks, current and prior period developments, reserving by line of business and operating subsidiary, the range of reasonable actuarial estimates, and areas of divergence between the in-house and external actuaries. It also considered comments by PricewaterhouseCoopers Ltd. ('PwC') in connection with loss reserve estimates. Having reviewed and challenged these areas, the Committee agreed with management's recommendations and the relevant disclosures in the accounts.

- Controls
  The Committee believes that an effective control environment, particularly around financial reporting, is essential to the fair presentation of financial statements. Accordingly, the Committee receives and reviews detailed reporting on controls throughout the year. In preparation for release of the 2014 financial statements, the Committee reviewed, considered and debated (a) the PwC management letter, which focuses on controls; (b) an internal 'risk and control review'; (c) internal audit reports, including detailed updates on the status of outstanding issues identified by Internal Audit; (d) risk reports including details of risk authority levels across the Group; and (e) the formal annual control effectiveness review (per FRC guidance of September 2014). The Committee concluded that the Group maintained a comprehensive risk and control framework which supported approval of the financial statements.

Corporate Governance Report

- Accounts
  The Committee considered the presentation of the financial statements in detail. In particular, the Committee considered with management and PwC the accounting treatment for the sale of Catlin's investment in Box Innovation Group Limited, uncorrected misstatements/out of period adjustments and the presentation of administrative expenses, and concurred with management's proposals for these accounting treatments and disclosures in the accounts.

The Committee is also required to:

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

The Committee recommended the re-appointment of PricewaterhouseCoopers Ltd. as the Group's auditor. PwC has been the Group's auditor since 1999. There are no contractual obligations restricting the Group's choice of external auditor.

In the second half of 2014 the Committee initiated a tender process for the appointment of an external auditor. The first phase included face to face meetings between representatives of potential audit firms and senior management. These meetings occurred after detailed analysis of important criteria, including the global resources and technical capabilities of potential firms and the published results of the work of the FRC's Audit Quality Review team. This phase allowed us to reduce the competing firms to two: PwC and one other firm. The second phase entailed the provision of detailed information to the two firms to allow them to prepare a formal proposal. This phase was in progress when the announcement was made of the proposed XL-Catlin business combination; therefore, a final conclusion was not reached. Nevertheless, in making its decision to reappoint PwC, the information gathered in the tender process was considered alongside the Committee's annual assessment of the effectiveness of the external audit.

The Committee's annual assessment is performed with the assistance of a report from Group Internal Audit based on input from various relevant functions (including Finance, Actuarial, Tax, Legal, Investments and IT) regarding auditor independence and objectivity, audit strategy and coordination, execution of audit work, and communication of findings and results. The Committee also considered its own interaction with PwC at formal and private meetings, through correspondence and otherwise through the year. The Committee noted areas of strength and areas for development, which were communicated to PwC, and concluded that the external audit was effective. On that basis, PwC was reappointed.

The Committee is responsible for monitoring PwC's independence and for approving all appointments of PwC to provide non-audit services, subject to a de minimis threshold of US$75,000 per assignment. Such appointments are approved only if the Committee is satisfied that the independence and objectivity of the auditors will not be undermined by the nature or value of the non-audit work and that there are compelling reasons to use the external auditors rather than another service provider. The total payable to PwC in 2014 for audit services was US$3,446,596 (2013: US$3,320,930). The total payable in 2014 for non-audit services was US$2,559,798 (2013: US$833,401). The non-audit services, which were more costly than in previous years, were principally related to Project Phoenix (providing assurance services for a new insurance system for Catlin US) and to the sale of the Group's interest in Box Innovation Group Limited. In both cases, the Audit Committee agreed to PwC's appointment because its skills and experience were considered to be highly relevant and most appropriate to advance these two important Group initiatives during the year. Having considered and discussed the matters with PwC, the Committee concluded that the non-audit work would not prejudice PwC's independence as auditor.

Meetings
The Committee met four times during 2014. All members attended all meetings.

Activities

Financial reporting

- The Committee reviewed the 2013 year-end and 2014 half-year financial results.
- It met with external and Company actuaries to review and discuss technical loss reserves, with a focus on areas of greatest reserving uncertainty.
- In addition to receiving full meeting reports, the Committee met privately with the external actuaries without management present.
- It reviewed all proposed public financial statements.
- It considered updates on accounting policy matters.
- The Committee reviewed progress on various projects designed to improve the financial reporting and control systems.

External audit

- The external auditors attended all Committee meetings.
- The Committee discussed with PwC the 2013 full-year audit, 2014 half-year review and the plan for the 2014 year-end audit. Following the full meeting reports, the Committee met privately with the external auditors without management present.
- The Committee reviewed all PwC management letters to the Company and its principal operating subsidiaries.
- The Committee reviewed and approved PwC's terms of engagement.
- The plan for the annual external audit work was approved, along with related fees.
- The Committee assessed the qualifications, experience and effectiveness of the external auditors. It evaluated the auditors' independence, objectivity and rotation plans.
- The Committee reviewed and approved all non-audit assignments to PwC (above the de minimis threshold).

Internal audit and risk

- The Committee received regular reports on the findings from the programme of internal audits. Following the full meeting reports, the Committee met with the Head of Internal Audit without management present.
- The 2015 internal audit programme was reviewed and agreed.
- Key financial risks and other risks were identified and discussed with management.
- The Committee considered special reports and presentations on Enterprise Risk Management, the Group capital model, Solvency II and other risk topics.
- The Committee directed and reviewed the assessment of effectiveness of internal controls and risk management systems.
- The Committee reviewed reports on regulatory compliance, including the Group's whistle-blowing policy. Following the full meeting reports, the Committee met with the Group Compliance Officer without management present.

Other

- The Committee received regular governance and control reports from the Group's principal operating subsidiaries.
- The Committee received regular reports from the General Counsel on legal matters germane to Committee responsibilities.
- The Committee reviewed Directors' expenses.
- The Committee reviewed governance reports covering major financial reporting and control themes at the Company's principal operating subsidiaries.
- The Committee reviewed its terms of reference and conducted an assessment of how it had discharged its responsibilities.
- The Committee has undertaken an ongoing training and education programme to keep up to date with accounting, regulatory, governance and other relevant developments.

By Order of the Board

Daniel Primer
Company Secretary
9 February 2015

Directors' Remuneration Report

Annual Statement by the Chairman of the Compensation Committee

On behalf of the Compensation Committee, I am pleased to present the Directors' Remuneration Report for Catlin Group Limited.

Company background and performance

Catlin Group is a global specialty insurer and reinsurer based in Bermuda, operating through six underwriting hubs worldwide. Additional summary information about Catlin appears on pages 1 through 3 of this annual report.

2014 proved to be an especially eventful year for Catlin, during which the Group performed well:

- Total stockholders' equity increased by 6 per cent to US$4.0 billion.
- Profit before tax increased by 13 per cent to $488 million.
- Net income to common shareholders rose by 7 per cent to US$418 million.
- Net underwriting contribution totalled US$991 million, only slightly less than last year's record, reflecting superior underwriting performance despite a challenging market environment.
- Return on equity amounted to 13.1 per cent.
- Return on net tangible assets amounted to 16.3 per cent.

In December the Group agreed to sell its shareholding in Box Innovation Group Limited, the parent of telematics auto insurer Insure the Box ('ITB'). This had formed part of Catlin's strategy of selective investment in opportunities that directly support and align to its core business model. Following completion of the sale, expected in the first quarter of 2015, Catlin is expected to pay a special dividend to shareholders from the distributable surplus from the sale amounting to approximately 12 pence per share.

Most importantly, Catlin in December also announced that it was engaged in discussions with XL Group plc regarding a recommended offer for Catlin by XL. The two companies announced on 9 January 2015 that they had agreed the terms of a recommended cash and share offer for Catlin by XL. It is expected that this offer will be completed in the first half of 2015, subject to shareholder, regulatory, competition and other usual closing conditions.

The proposed business combination with XL builds on each business's core strengths and would create one of the largest global specialty insurance insurers/reinsurers. The resulting company, to be marketed as 'XL Catlin', recognising the power of the Catlin brand, would be expected to deliver sustainable attractive returns to shareholders.

This combination of strong annual performance, the value to be generated by the ITB sale and the agreement with XL has allowed Catlin to produce significant shareholder value. In the 12 months ending 31 December 2014, Catlin's total shareholder return amounted to 22.7 per cent. For the 13 months ended 31 January 2015 – taking into account the announcement of the XL offer on 9 January – total shareholder return amounted to 27.4 per cent.

For the five-year period ended 31 December 2014, Catlin produced total shareholder return of 173.8 per cent. Since Catlin's initial public offering in 2004 through the end of 2014, total shareholder return achieved was 284.8 per cent, compared with an average total shareholder return of 132.5 per cent by FTSE 350 companies over the period.

The Board of Directors has also declared a final 2014 dividend of 22 pence per share, payable on 19 March 2015 to shareholders of record on 20 February 2015. This is over and above the special dividend payable with regard to the sale of ITB referenced above.

Awards for 2014 made to the Executive Directors – Chief Executive Stephen Catlin and Chief Financial Officer Benjamin Meuli – reflect this superior performance.

Remuneration philosophy and practice

Catlin's remuneration philosophy is designed to link pay directly to both annual and long-term performance, aligning Executive Directors' pay to the sustainable creation of shareholder value.

The Group operates a clear and simple remuneration structure, with the same bonus and long-term incentive plans operating across all global locations. We have this year included for information the Policy Report, which was approved by shareholders at the May 2014 Annual General Meeting. During 2014 we operated within this policy.

I would also like to take this opportunity to confirm that over the course of 2014 the Compensation Committee agreed the introduction of a clawback provision to apply from 2015 onwards to all variable pay awards made to Executive Directors and members of the Catlin Group Executive Committee. In the light of the recommended offer by XL, it has not been appropriate to implement this policy, as all compensation arrangements following the completion of the acquisition would be subject to the policies and practices of XL Group.

2014 key pay outcomes

Annual bonus awards for the Chief Executive and the Chief Financial Officer are based on the Group's 2014 results and on the Committee's view of their respective individual performance. The Committee this year has taken into account the very strong performance delivered by Catlin during 2014, the superior shareholder return delivered and the sale of Catlin's shareholding in Box Innovation Group. The Committee also considered the work undertaken by Mr Catlin over the course of 2014 resulting in the recommended offer by XL.

Mr Catlin and Mr Meuli received annual bonuses of US$3,292,380 and US$1,215,792, respectively. A portion of Mr Catlin's annual bonus will be deferred in line with the Company's usual policy. This portion would be subject to change of control provisions. In the event that the transaction does not proceed, this portion will be deferred under the Deferred Bonus Share Plan and will vest over a three- to five-year period.

Awards from the Group's Performance Share Plan ('PSP') granted in 2011 and 2012, with three- and four-year performance periods ending 31 December 2014, vested in February 2015. The 2011 Award vested at 52.3 per cent and the 2012 at 89.8 per cent. The 2011 Award was impacted by the record natural catastrophe losses in 2011, but good results in 2010, 2012 and 2013 have resulted in partial vesting for this Award. 2012 and 2013 business performance, combined with the good 2014 result, has produced vesting near the upper threshold for the 2012 award.

Key pay decisions for 2015.

Neither Mr Catlin nor Mr Meuli received an increase to base salary for 2015. This decision was taken by the Compensation Committee in the context of a relatively modest pay budget, set at less than 3 per cent, across the organisation as a whole.

In light of the offer by XL, no changes to the current remuneration policy are proposed for 2015.

Conclusion

Shareholders will be asked to vote on the Directors' Annual Remuneration Report, on an advisory basis, at the Company's Annual General Meeting to be held on 6 August 2015 at the Group's headquarters office in Hamilton, Bermuda. As a reminder, Catlin complies on a voluntary basis with the key elements of the UK reporting requirements for Directors' remuneration.

We are committed to engaging openly with shareholders and to providing clear and transparent information regarding our remuneration policies and outcomes. I welcome any comments or questions that you may have concerning the contents of this report.

Fiona Luck
Chairman of the Compensation Committee

Directors' Remuneration Report
Directors' Annual Remuneration Report

This report sets out the implementation of Catlin's Remuneration Policy for its Directors, relating to the year ending 31 December 2014. All decisions taken regarding remuneration for 2015, which will apply prior to the completion of XL Group plc's recommended offer for Catlin, have been made in accordance with the Policy Table provided on page 138.

Consideration by the Directors of matters relating to Directors' remuneration
Bruce Carnegie-Brown held the position of Chairman of the Compensation Committee until the May 2014 Annual General Meeting, at which time he stepped down from this role. Fiona Luck was appointed as Compensation Committee Chair at the AGM. Non-Executive Directors Beatrice Hollond and Claus-Michael Dill joined the Committee with effect from May 2014. The other members of the Committee during the year were Non-Executive Directors Robert Gowdy and Nicholas Lyons. All members of the Committee were independent within the meaning of the UK Code of Corporate Governance throughout the year. The Committee met five times during 2014; all members attended all meetings once members of the Committee.

The Chairman of the Board of Directors, the Chief Executive Officer and the Chief Operating Officer attend meetings at the invitation of the Committee.

The Committee received information and assistance as required from the Company Secretary, the Group Human Resources Director and the Global Head of Reward. Other members of management may attend meetings by invitation. No individual is present when matters relating to their own remuneration are being discussed.

In 2014 the Committee received analysis and advice from Deloitte as nominated external advisors. Deloitte also provided advice in relation to tax, IT and other business function consulting and assurance support. New Bridge Street and KPMG also provided support on the implementation of the Group's new Performance Share Plan ('PSP') and bonus deferral plan. The total fees paid to external advisors in respect of services to the Committee during 2014 amounted to US$209,196.

New Bridge Street, one of the firms providing advice to the Committee during the year, is owned by Aon Plc, a large insurance broking firm which also has significant commercial relationships with the Group. However, New Bridge Street has no involvement in Aon's insurance brokerage business, and the relationship with Aon has no influence on the professional advice it provides to the Committee. Deloitte, KPMG and New Bridge Street adhere to the Remuneration Consultants Group Code of Conduct in relation to executive remuneration consulting in the United Kingdom.

Terms of reference
There was no change to the Committee's terms of reference during 2014. Its roles and responsibilities include assisting the Board in setting policy for the remuneration of the Chairman, the Executive Directors, other senior executives and all Group employees. Within that policy, the Committee establishes remuneration packages for the Chairman, the Executive Directors and other senior executives. It is also responsible for agreeing aggregate salary increases for all Group employees, agreeing bonus plans, establishing performance targets and individual awards under share incentive plans, and recommending to the Board any major changes to employee benefit structures throughout the Group. The Committee's terms of reference are available on request from the Company Secretary and appear on the Company's website.

The following table sets out the single figure for total remuneration (in US dollars) for Directors with respect to the financial years ended 31 December 2013 and 2014.

Directors' remuneration as a single figure (US$000)

	2014						2013					
	Fees and salary	Pension	Benefits	Bonus	PSP[1]	Total	Fees and salary	Pension	Benefits	Bonus	PSP	Total
Executive												
Stephen Catlin	**1,097**	**219**	**212**	**3,292**	**3,020**	**7,840**	1,060	212	207	2,120	1,869	5,468
Benjamin Meuli	**973**	**142**	**92**	**1,216**	**2,786**	**5,209**	949	142	90	847	1,558	3,586
	2,070	**361**	**304**	**4,508**	**5,806**	**13,049**	2,009	354	297	2,967	3,427	9,054
Non-Executive												
John Barton	**367**	**–**	**–**	**–**	**–**	**367**	355	–	–	–	–	355
Bruce Carnegie-Brown[2]	**59**	**–**	**–**	**–**	**–**	**59**	153	–	–	–	–	153
Claus-Michael Dill[4]	**70**	**–**	**–**	**–**	**–**	**70**	–	–	–	–	–	–
Robert Gowdy	**125**	**–**	**–**	**–**	**–**	**125**	114	–	–	–	–	114
Beatrice Hollond[4]	**70**	**–**	**–**	**–**	**–**	**70**	–	–	–	–	–	–
Fiona Luck[3]	**135**	**–**	**–**	**–**	**–**	**135**	98	–	–	–	–	98
Nicholas Lyons	**170**	**–**	**–**	**–**	**–**	**170**	133	–	–	–	–	133
	996	**–**	**–**	**–**	**–**	**996**	853	–	–	–	–	853
Total	**3,066**	**361**	**304**	**4,508**	**5,806**	**14,045**	2,862	354	297	2,967	3,427	9,907

Note: Remuneration for 2014 and 2013 has been converted into US$ using a common exchange rate
1 PSP awards are valued using the closing share price on the date of vesting of £7.03.
2 Mr Carnegie-Brown stepped down from his position on the Board effective 13 May 2014
3 Ms Luck was elected Compensation Committee Chair effective 13 May 2014
4 Ms Hollond and Mr Dill were elected to the Board effective 13 May 2014

Additional disclosures to the single-figure table

Executive Directors

Pension

Mr Catlin receives an annual pension cash allowance equal to 20 per cent of base salary. Mr Meuli receives an employer's pension contribution equal to 15 per cent of base salary paid into a Swiss pension plan.

Benefits

Private medical, life, disability and income protection insurances are purchased for the benefit of the Executive Directors. Mr Catlin also has the use of a Bermuda residence.

Bonus

The Executive Directors participate in the Group's single bonus plan. The bonus plan operates as detailed in the Policy Table on page 139.

The 2014 bonuses for the Executive Directors (payable in March 2015) are based on the Committee's assessment both of the Group's performance and of the individual contributions of Mr Catlin and Mr Meuli, respectively. The Group achieved good results in 2014, including:

- Total stockholders' equity increased by 6 per cent to US$4.0 billion.
- Profit before tax increased by 13 per cent to $488 million.
- Net income to common shareholders rose by 7 per cent to US$418 million.
- Net underwriting contribution totalled US$991 million, only slightly less than last year's record, reflecting superior underwriting performance despite a challenging market environment.
- Return on equity amounted to 13.1 per cent.
- Return on net tangible assets amounted to 16.3 per cent.

Directors' Remuneration Report
Directors' Annual Remuneration Report

In determining the bonuses for the Executive Directors, the Committee has taken into account the strong performance delivered by Catlin during 2014, the superior shareholder return delivered and the sale of Catlin's shareholding in Box Innovation Group Limited. The Committee also considered the work undertaken by Mr Catlin over the course of 2014 resulting in the recommended offer by XL.

Mr Catlin was awarded an annual bonus of US$3,292,380, of which US$1,426,698 is payable in March 2015. The remainder of US$1,865,682 will be deferred in line with the Company's usual policy. This portion would be subject to change of control provisions. In the event that the offer does not proceed, this portion will be deferred under the Deferred Bonus Share Plan and will vest over a three- to five-year period.

Mr Meuli's bonus award was US$ 1,215,792.

PSP vesting
The figures shown in the 2014 PSP column in the single-figure table represent the actual vesting of 52.3 per cent of the Awards granted in 2011 with a four-year performance period and 89.8 per cent of the Awards granted in 2012 with a three-year performance period, full details of which are disclosed in the table below. Both performance periods ended on 31 December 2014. These Awards will vest in 2015.

The comparable figures for 2013 represent the vested percentage of the Awards granted in 2010 with a four-year performance period and in 2011 with a three-year performance period, both of which had performance periods that ended on 31 December 2013. These Awards vested in 2014.

The PSP figures for both years include the value of dividend shares accrued on vested awards at the date of vesting.

The performance conditions for 2011 and 2012 Awards are growth in net asset value per share, plus cumulative dividends declared per share, over the relevant four- or three-year performance periods. The performance targets are as provided below :

Performance metric	Performance target
Net asset value growth per share (plus dividends declared) above the risk-free rate[1] ('RFR')	30 per cent of an Award vests at RFR plus 5 per cent per annum 100 per cent of an Award vests at RFR plus 10 per cent per annum

1 The risk-free rate is equal to 12-month US dollar Libor

The performance achieved against targets for 2011 and 2012 Awards vesting in respect of the performance period ending 31 December 2014 is provided below.

Year of Award	2012	2011
Actual growth in net asset value per share	33.7%	33.5%
Minimum threshold	18.6%	25.5%
Maximum threshold	36.2%	50.9%
Vesting status	89.8%	52.3%

PSP awards granted to Executive Directors in 2014

Awards for the Executive Directors in 2014 were granted under the new PSP approved at the May 2013 AGM. Details of the performance conditions and vesting periods are disclosed in the table below:

	Award	Type	Number of units	Value (US$000[1])	% of salary	Performance conditions	Performance period
Stephen Catlin	Performance Share Plan	Nil-cost options	251,250	2,195	200%	25 per cent vests at the plan's minimum hurdle of net asset value per share growth equal to RFR plus 5 per cent; 100 per cent vests at growth in net asset value per share equal to RFR plus 12 per cent	50 per cent over three years and 50 per cent over four years with no re-testing
	Performance Share Plan Additional Award[2]	Nil-cost options	125,625	1,097	100%	25 per cent vests at the plan's minimum hurdle if total shareholder return ('TSR') equals median of peer group TSR; 100 per cent vests if TSR equals upper quintile of peer group TSR	
Benjamin Meuli	Performance Share Plan	Nil-cost options	234,416	2,048	200%	25 per cent vests at the plan's minimum hurdle of net asset value per share growth equal to RFR plus 5 per cent; 100 per cent vests at growth in net asset value per share equal to RFR plus 12 per cent	50 per cent over three years and 50 per cent over four years with no re-testing

1 Value is calculated by multiplying number of awards by the closing share price on the date of grant (£5.60). Data is disclosed in US dollars.
2 Peer group as communicated to the shareholders prior to the 2013 AGM are: Alterra Capital Holdings (removed following acquisition by Markel Corp.), Amlin plc, Arch Capital Group, Aspen Insurance Holdings Limited, Axis Capital Holdings, Beazley plc, W R Berkley Corp., Endurance Specialty Holdings Ltd., HCC Insurance Holdings Inc., Hanover Insurance Group Inc., Hiscox Ltd., Lancashire Holdings Limited, Markel Corp., Partner Re, RSA Insurance Group plc, Validus Holdings Ltd. and XL Group plc.

Percentage change in Chief Executive's pay and all Group employees' pay 2013–2014

The table below shows the percentage change in base salary, bonus and benefits for the Chief Executive and for all employees of Catlin Group Limited.

	Salary	Benefits	Annual bonus
Chief Executive	3.5%	2.9%	55%
Average for all employees	3.6%	4.9%	19%

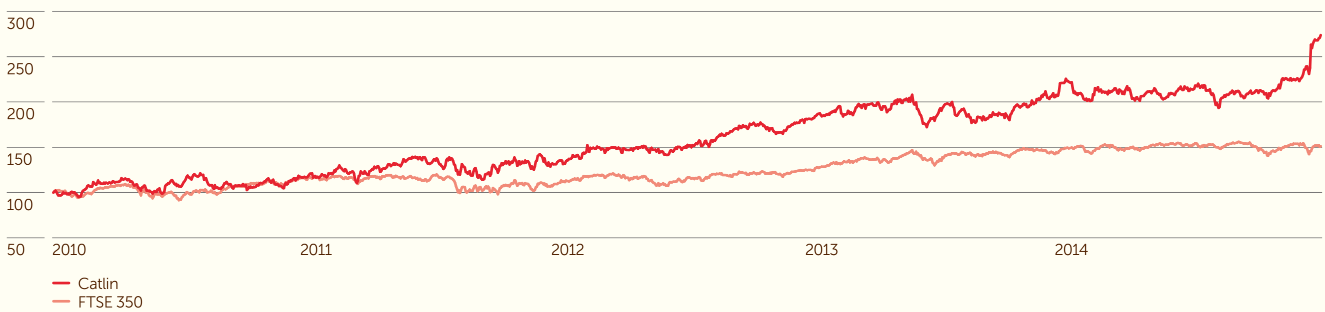
Notes
- The all-employee salary increase is based on the average of all employee increases at the annual salary pay review, effective 1 January 2014. The 3.6 per cent average includes promotional increases and local annual increases across all Catlin locations, which are set taking into account local inflation and market pay movement.
- The average annual bonus figure is based on the total bonus pool and headcount eligible for an award for 2014, compared with the total bonus pool and headcount eligible for an award for the 2013 performance year.
- The all-employee increase in benefits is based on the total cost of employer-provided employee benefits across all locations during 2014 as compared with 2013, divided by average headcount for each year.

Directors' Remuneration Report
Directors' Annual Remuneration Report

Group performance and Chief Executive's total remuneration – 2010–2014

The chart below shows the Group's total shareholder return for the five-year period ended 31 December 2014 against that of the FTSE 350 index. The FTSE 350 index is a recognised index of which Catlin is a member.

Performance Chart
1 January 2010–31 December 2014



Total remuneration for Chief Executive (US$000)

	2014	2013	2012	2011	2010	2009
Single total figure of remuneration	**7,840**	5,468	5,299	2,856	2,576	4,438
Bonus award: % of maximum	**100%**	67%	42%	N/A[1]	N/A[1]	N/A[1]
PSP vesting: % of maximum	**70%**	46%	69%	50%	29%	80%

Please note: 2009 information included for information only

1 Bonus award as a percentage of the maximum is not shown for 2009–2011 as the Group had no formal bonus cap in place prior to 2012

Executive Director shareholding guidelines

Formal shareholding requirements were implemented in 2013 for the Executive Directors and other members of the Group's Executive Committee. These requirements align the interests of executives to the Group's long-term performance and to the interests of its shareholders, employees and customers.

The shareholding requirement for the Chief Executive is 500 per cent of base salary; that for the Chief Financial Officer and other members of the Group Executive Committee is 200 per cent. Executive Directors have five years over which to achieve the minimum shareholding; both currently exceed the requirement, as shown in the table below, which provides details on the Executive and Non-Executive Directors' shareholdings and scheme interests as at 31 December 2014.

Executive Director shareholdings and scheme interests (US$m)

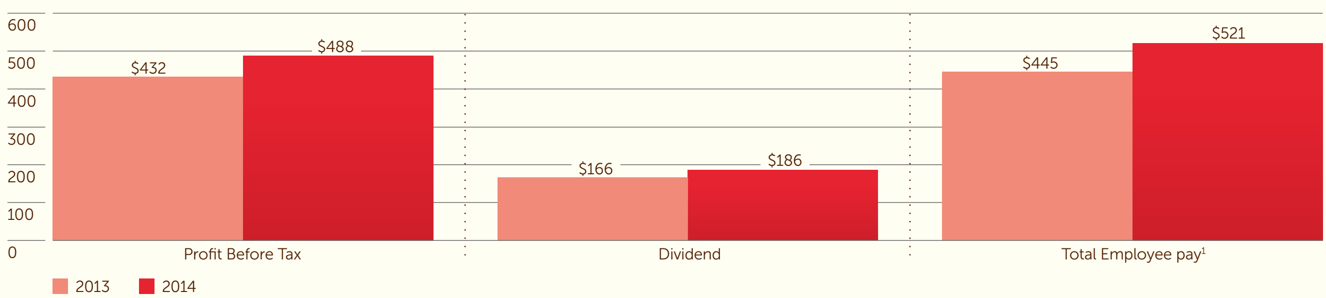
				Nil-cost options subject to performance conditions	Shares subject to continued employment	
Name	Current share interests[1]	Award year	Vesting date	PSP maximum award[2]	Deferred bonus[3,4]	SAYE[5]
Executive Directors						
Stephen Catlin	6,821,333					
		2011	10 February 2015	169,207		
		2012	9 February 2015	148,330		
		2012	9 February 2016	148,329		
		2013	18 February 2016	131,178		
		2013	18 February 2017	131,177		
		2014	24 February 2017	125,625		
		2014	24 February 2017	62,813		
		2014	24 February 2018	125,625		
		2014	24 February 2018	62,812		
		2014	1 March 2017		29,389	
		2014	1 March 2018		29,389	
		2014	1 March 2019		29,388	
Benjamin Meuli	1,003,378					
		2011	10 February 2015	147,798		
		2012	9 February 2015	142,093		
		2012	9 February 2016	142,093		
		2012	1 November 2015			361
		2013	18 February 2016	127,298		
		2013	18 February 2017	127,298		
		2014	24 February 2017	117,208		
		2014	1 November 2017			4,026
		2014	24 February 2018	117,208		
Non-Executive Directors						
John Barton	50,000					
Bruce Carnegie-Brown[6]	10,000					
Claus-Michael Dill	–					
Robert Gowdy	29,350					
Beatrice Hollond	–					
Fiona Luck	5,000					
Nicholas Lyons	–					

1. As at 31 December 2014 Mr Catlin held Catlin shares valued at 65 times his base salary, including shares held in the Catlin Settlement Trust, whilst Mr Meuli held shares valued in excess of ten times base salary.
2. The maximum number of PSP Awards shown represents the maximum number of Awards eligible to vest. Additional dividend equivalents are not included; these will be calculated upon vesting of the Awards, depending on the extent to which the performance conditions have been achieved.
3. Deferred Bonus shares were awarded in 2014 in respect to bonus paid for the performance year ending 31 December 2013.
4. This table does not include awards for the portion of the 2014 bonus typically deferred into shares, as noted on page 132.
5. 'Save As You Earn' plan, an all-employee share programme.
6. Shares shown were held by Mr Carnegie-Brown when he stepped down from his position on the Board effective 13 May 2014.

Directors' Remuneration Report
Directors' Annual Remuneration Report

Relative importance of spend on pay
The following table shows the year-on-year change in total remuneration of all employees in comparison with profit before tax and ordinary dividends distributed to shareholders.

Movements in profit before tax, dividends and employees' pay (US$m)



1 The employee pay totals are based on accounting actuals for all pay elements in 2013 and 2014, respectively

Statement of shareholder voting at the May 2014 AGM
At the 2014 AGM shareholder voting on the remuneration report was as follows:

	Votes for	Votes against	Votes withheld
To approve the Directors' Remuneration Report	57.1%	6.7%	36.2%
To approve the Directors' Remuneration Policy	92.5%	1.5%	6.0%

Implementation of Remuneration Policy in 2015
Base salary
Mr Catlin's salary effective 1 January 2015 remains unchanged at US$1,097,460, as does Mr Meuli's at US$972,734. The Compensation Committee took the decision to target 2015 salary increases primarily towards employees at junior and middle levels in the Group and therefore did not award a base pay increase to either of the Executive Directors.

Benefits and retirement benefits
Benefits and pension contributions and allowances provided to the Executive Directors are in line with the provisions outlined in the Policy Table on page 138. Mr Catlin will receive a pension cash allowance equal to 20 per cent of his base salary, and Mr Meuli will receive retirement benefits equal to 15 per cent of his base salary in the form of direct employer contributions into a Swiss pension plan.

Bonus
In the event that the offer from XL Group does not proceed as planned, any bonus payable in 2016 for performance in 2015 will be awarded on the basis of the terms as set out in the Policy Table.

Long-term share plans

Mr Catlin and Mr Meuli have been granted awards under the current PSP, approved by shareholders at the May 2013 AGM.

Mr Catlin has been granted an award equal in value to 300 per cent of base salary, and Mr Meuli an award equal in value to 200 per cent of base salary. These awards were determined by the Committee in the context of the strong performance and shareholder value delivered by Catlin in 2014, as referenced on page 131.

Performance of these awards is measured against the same conditions as awards granted in 2014, as referenced in the table on page 133. Awards will be subject to change in control provisions in the event of the offer for Catlin by XL, or otherwise will vest 50 per cent over three years and 50 per cent over four years.

A total of two Additional Awards have been granted in 2015. Two employees, one of whom is the Chief Executive, have therefore received PSP grants equal in value to more than 200 per cent of base salary.

Clawback provisions

The Committee agreed to introduce clawback provisions to all variable pay awards for the 2015 performance year onwards to apply to Executive Directors and members of the Catlin Group Executive Committee. However, in the light of the recommended offer by XL, expected to be completed by the end of the first half of 2015, the Committee has determined that it would be inappropriate to implement this policy, as all compensation arrangements following the completion of the offer will be subject to XL Group plc remuneration policies.

Non-Executive Directors' fees

The Board reviews the fees payable to the Chairman and Non-Executive Directors annually. The fees are £235,000 for the Chairman, £77,750 for the Senior Independent Director and £67,750 for the other Non-Executive Directors (an increase of £10,000). The Chairman of the Audit Committee receives a supplement of £35,000 (an increase of £10,000); the Chairman of the Compensation Committee receives a supplement of £25,000 and the Chairman of the Investment Committee receives a supplement of £10,000. Members of the Audit Committee receive a supplement of £2,500.

Directors' fees are denominated in sterling but are reported in the single figure disclosure in US dollars.

Directors' Remuneration Report
Directors' Remuneration Policy Report

This Policy Report was approved by shareholders at the Group's Annual General Meeting in May 2014 and is presented in full for information.

Policy table
The table below sets out the remuneration policy that the Compensation Committee (the 'Committee') has applied since 13 May 2014, the date of the 2014 AGM. The report has been prepared in accordance with the UK Corporate Governance Code, the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the relevant provisions of the Listing Rules of the UK Listing Authority.

Future Policy Table: Executive Directors

Pay element	Purpose and link to strategy	Operation (including maximum potential values)	Performance metric (where applicable) and provision for the recovery of sums paid
Base salary	Provides fixed remuneration which is competitive in the markets in which the Group operates to attract and retain high-calibre executives in order to successfully deliver the Group's business strategy and objectives.	Salaries are typically reviewed annually. Any increases will take into account: salary increases provided to employees across the Group, scope of individual responsibility, skills and experience of the individual concerned, inflation and market pay movement. Salaries are shown in this report in US dollars but are paid in local currency The Group, in most circumstances, provides pay increases in line with those provided to other employees across the organisation. Larger increases may be applied in certain circumstances, such as progression within the role or a significant change in the size and scope of the role.	Not applicable
Benefits	As above	The Group provides such benefits as are necessary to ensure appropriate protection, cover and financial security for employees and their dependents. Benefits provided to Executive Directors may include private medical insurance, personal accident insurance, travel insurance, permanent health insurance and term life insurance. Executives are provided with accommodation in Bermuda. Executive Directors are also eligible to participate in any all-employee share plans operated by the Group (such as the 'Save As You Earn' ('SAYE') plans) on the same basis as other eligible employees. The Company provides benefits to enable Executive Directors to undertake their duties, including the costs of business travel. This may include the cost of any tax that may be incurred. Relocation support may also be provided if appropriate.	Not applicable
Retirement benefits	As above	Retirement benefits may be delivered in the form of either: • direct contributions to a registered pension scheme or other long-term investment/savings vehicle; or • in the form of a pension cash allowance. The Group will provide no more than 25 per cent of base salary in pension contribution or pension cash allowance.	Not applicable

Pay element	Purpose and link to strategy	Operation (including maximum potential values)	Performance metric (where applicable) and provision for the recovery of sums paid
Annual bonus	The Catlin bonus programme aims to motivate and reward employees at a market-competitive level for delivering annual financial results, without incentivising inappropriate risk-taking.	The Group operates a single bonus plan. The plan is funded by a pool based on profit. Individual allocations are at the discretion of the Committee. Allocations are based primarily on financial results, individual performance and contribution. The Committee is authorised to consider all aspects of the Group's performance in establishing the bonus pool and agreeing individual awards for Executive Directors. The maximum annual cash bonus for Executive Directors is 130 per cent of base salary. Any bonus award exceeding this amount is deferred into Catlin common shares for a period of up to five years, with vesting in three tranches on the third, fourth and fifth anniversary of the date of deferral. Dividend equivalents accrue on any deferred bonus awards prior to vesting The Executive Directors are not eligible for a bonus in any year in which the Group does not report a profit. Executive Directors can be awarded an absolute maximum annual bonus of 300 per cent of base salary.	Typically, the performance measures taken into account include, but are not limited to, net income, return on equity, return on net tangible assets, net underwriting contribution, gross premiums written, total investment return, and loss and attritional loss ratios. In the event of either a material misstatement of the Group's audited results upon which the bonus was determined or serious personal misconduct, the Committee has the discretion to reduce or cancel any unvested deferred shares.
Long-term share plans	The Group's Performance Share Plan ('PSP') is designed to motivate and reward Executive Directors at a market competitive level for their roles. The PSP aims to directly align Executive Directors' rewards with the Group's long-term performance, thereby driving a continuing focus on the delivery of sustainable shareholder value.	Each year eligible employees – including the Executive Directors – may be granted a conditional share award or a nil-priced option (an 'Award') over Catlin common shares. Such Awards will vest subject to the achievement of performance conditions over the relevant performance period. Typically, 50 per cent of an Award is based on performance achieved over a three-year period, with the remaining 50 per cent based on performance achieved over a four-year period. 25 per cent of the Award vests for threshold performance with 100 per cent vesting for maximum performance. There is a sliding scale of vesting between these points. 'Standard Awards' are capped at 200 per cent of base salary. 'Additional Awards' of up to 100 per cent of base salary may be granted. The absolute maximum Award that can be made under the PSP is set at 300 per cent of base salary. Upon vesting participants receive shares purchased in the market with notional dividends accrued on the underlying PSP Award ('dividend shares').	Standard Awards vest based on performance against challenging financial targets which are assessed over a period of at least three years. Additional Awards vest based on the Group's relative total shareholder return compared with a comparator group of industry peers, over a period of at least three years. PSP awards granted since 1 January 2014 are subject to a malus clause such that unvested awards may be reduced or cancelled, at the Committee's discretion, in the event of mis-statement of performance or serious misconduct.
Shareholding guidelines	To further align the interest of Executive Directors with those of the Group's shareholders	The current Chief Executive is required to hold shares equal in value to 500 per cent of base salary; the current Chief Financial Officer, 200 per cent. Executive Directors have five years over which to achieve their specified shareholding requirement.	Not applicable

Directors' Remuneration Report
Directors' Remuneration Policy Report

Future Policy Table: Non-Executive Directors

Pay element	Purpose and operation
Annual fee	To enable Catlin to attract and retain Non-Executive Directors of the highest calibre by offering market competitive fee levels. The Chairman is paid an all-inclusive fee for all Board responsibilities. Non-Executive Directors receive a basic Board fee. Additional fees are payable for additional responsibilities such as Chairmanship or membership of a Board Committee. The Board reviews the fees payable to the Chairman and Non-Executive Directors annually. The Board may increase fees, and any such increases will take into account the scope, requirements and responsibilities of the roles as well as relevant market data and the current financial condition of the Group.
Benefits	The Group will cover the cost of all required business travel and expenses for the Non-Executive Directors incurred in the fulfilment of their duties.
Other items	Non-Executive Directors are not eligible for participation in the Group's incentive or pension plans.

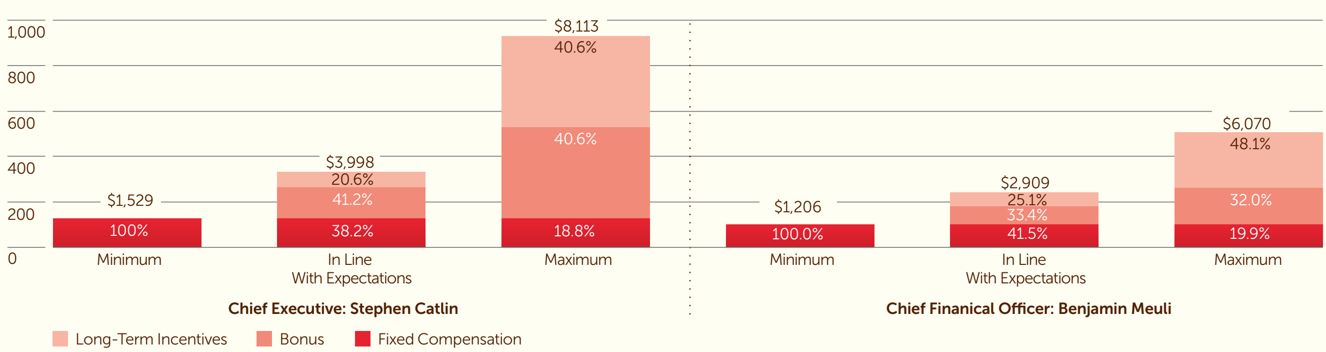
The Non-Executive Directors' fees have been set in accordance with the Company's Bye-Laws as approved by shareholders.

Notes
The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) that are not in line with the policy set out above where the terms of the payment were agreed:

- before the policy came into effect; or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and an award over shares is 'agreed' at the time the award is granted.

Illustration of remuneration policy for the Executive Directors[1] (US$000)



1 Illustration applies policy agreed for 2013 updated with 2014 compensation data as noted in the Annual Remuneration Report

Assumptions

Levels of performance		Assumptions
Fixed pay	All scenarios	• Total fixed pay comprises base salary, benefits and pension • Base salary: effective as at 1 January 2015 • Benefits: policy as at 1 January 2015 • Pension: percentage of salary received in employer pension contributions as per the notes to the single figure table on page 131, within the policy set out in the policy table
Variable pay	Minimum	• No payout under the annual bonus • No vesting under the PSP
	Middle scenario	• 50 per cent of the maximum payout under the annual bonus • 25 per cent vesting under the PSP
	Maximum	• 100 per cent of the maximum payout under the annual bonus[1] • 100 per cent vesting under the PSP

1 The formal maximum bonus for Executive Directors is 300 per cent of salary. The maximum bonus percentage for the Chief Financial Officer shown in the chart above is 200 per cent of salary, based on current practice

Approach to recruitment remuneration

When determining the remuneration package for a newly appointed Executive Director, the Group would seek to apply the following principles:

- Remuneration should be sufficiently market-competitive to facilitate the recruitment of individuals of a calibre required to successfully execute the business strategy. At the same time, the Committee would seek to pay no more than is necessary to secure the required talent.

- As soon as practicable, an Executive Director's ongoing package would be in line with the provisions set out in the Policy Table.

- The maximum level of variable remuneration (excluding buy-outs) would be six times salary, in line with the maximums payable based on the Policy Table.

- For the recruitment of an Executive Director, it may be necessary for the Committee to apply its discretion by providing buy-out awards. The intention is that such awards would be capped at the commercial value forfeited. As far as possible, these will match on a like-for-like basis both the form of award and the vesting schedule of such arrangements. The form of any buy-out will be determined at the time, and the Committee may make buy-out awards under LR 9.4.2 of the Listing Rules.

- The Company has the ability to honour any existing commitments for an internal promotion that do not correspond to the Policy Table.

- The Committee retains discretion to make appropriate remuneration decisions outside the standard Policy to meet the individual circumstances of recruitment which may include:

  – An interim appointment is made to fill an Executive Director role on a short-term basis.

  – Exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis.

- The remuneration package for a newly appointed Non-Executive Director is expected to be in line with the structure set out in the Policy Table for Non-Executive Directors.

Directors' Remuneration Report
Directors' Remuneration Policy Report

Policy on payment for loss of office
Executive Directors
When an Executive Director leaves employment, the Committee's approach to determining any payment for loss of office will be as set out in the table below. For the purposes of this table, leavers will be defined as 'good leavers' in the following circumstances: death; injury; ill health or disability; retirement with the consent of the Committee; departure on agreed terms; the participant's employing company ceasing to be a member of the Group; the business or part of the business to which the participant's office or employment related being transferred to a person who is not a member of the Group; and any other reason if the Committee in its absolute discretion determines.

Pay element	Treatment of resignation in most circumstances or of departures for reasons of gross misconduct	Treatment of 'good leavers' (as defined above)
Base salary, pension and benefits	Paid for the proportion of the notice period worked, including any outstanding holiday entitlement	Paid up to the date of leaving, including any outstanding holidays and, subject to mitigation, payment in lieu of notice.
Annual bonus	No entitlement to an annual bonus award following the date that notice is served	The Committee may apply judgment in awarding an amount with respect to annual bonus, payable in accordance with the Policy Table, for the year of departure. The Committee reserves the right to pro-rate this payment according to the period worked over the respective year.
Bonus deferred into shares	Unvested awards will lapse	Unvested awards will normally continue to the normal vesting date or vest in full as soon as practicable thereafter. The Committee reserves the right to exercise its discretion in determining the final vesting treatment of awards.
Long-term share plans	Unvested PSP Awards will lapse	Awards will normally vest on the original vesting date. The Committee shall take into account the extent to which the performance condition(s) have been fulfilled and the extent to which the relevant performance period was unexpired at the date the participant ceased to hold employment. The Committee reserves the right to exercise its discretion in determining the final vesting treatment of Awards. For participants who are good leavers by virtue of retirement, if the participant had long service with the business and sustained good personal performance in role, the Committee may exercise its discretion not to pro-rate awards for the time employed during the performance period. In such circumstances if the leaver resumed employment elsewhere in the industry, the Committee would consider applying forfeiture provisions to the unvested Awards.

Non-Executive Directors

Non-Executive Directors are not entitled to any compensatory payment for loss of office. Fees will be paid up to the point of cessation of the appointment.

Service contracts

Service contracts for Executive Directors require 12 months' written notice of termination of employment and do not provide for additional compensation to be paid in the event of termination.

The Non-Executive Directors have formal notice periods of three months. Their appointment is subject to periodic re-election at the Group's AGM.

The letters of appointment for Non-Executive Directors and service contracts for Executive Directors are available for inspection at the offices of Catlin Holdings Limited at 20 Gracechurch Street, London EC3V 0BG during normal business hours and will be available at the Annual General Meeting.

Remuneration policy for other employees

The remuneration policy for the Executive Directors is consistent with that for employees across the Group. When setting the remuneration policy for the Executive Directors, the Committee considers reward policy and practice for all employees.

Base salaries for all employees are reviewed taking into account scope of individual responsibility, skills and experience of the individual concerned, inflation and market pay movement.

All employees, including the Executive Directors, are eligible to participate in the Group's single bonus plan, and senior executives across the Group are eligible to participate in the PSP on the terms outlined in the Policy Table.

The overall proportion of pay subject to performance increases with seniority, in line with the Group's focus on the link between reward and performance and on aligning senior employees' pay directly with the interests of shareholders.

Statement of consideration of shareholders' views

Catlin recognises its responsibilities to shareholders and the investor community, and the Group aims to actively consult on significant remuneration policy decisions. The Chairman and the Chairman of the Compensation Committee regularly engage with shareholders and take into account their views and comments.

Investor Relations

Summary

- 15.6 per cent increase in Catlin share price in 2014
- 22.7 per cent total shareholder return in 2014
- 173.8 per cent total shareholder return from 2010–2014

Catlin has a policy of maintaining regular and open communication with shareholders and the investment community in order to keep all stakeholders up to date with developments affecting the Group.

Members of the Group's management team make presentations to analysts and investors following the announcement of the annual and interim results. In addition, Catlin holds an annual 'Investor Day' for institutional investors and analysts; the Investor Day held on 19 November 2014 focused on Catlin's international expansion particularly in the US and Europe as well as offering interaction with line underwriters, claims and actuarial staff. Shareholders worldwide can listen to the main presentation on demand via a webcast available on the Group's website, www.Catlin.com.

Catlin's management also meets frequently with analysts, fund managers and institutional investors. During 2014 management met with more than 150 existing or potential equity investors in the UK, North America, Continental Europe and Asia.

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

Shareholders receive printed copies of the Annual Report and Accounts and the Half-Yearly Results Statement. The Group's website also contains detailed information for shareholders and the investment community. The website includes:

- current share price information and modelling tools;
- key financial information;
- past annual reports;
- webcasts of presentations to analysts and the annual Investor Day; and
- all announcements made by the Group through the Regulatory News Service in the UK.

The Group's website also includes all media announcements issued by Catlin.

Catlin also makes available a dedicated investor relations application for iPads, iPhones and Android devices. The app contains much of the information of interest to investors available on the Catlin website, including real-time share prices, in an easy-to-use format. The Catlin investor relations app can be downloaded from the Apple App Store or Google Play.

Share information

Catlin shares performed strongly in 2014, with the share price increasing by 15.6 per cent. Including dividends paid during the year, total shareholder return in 2014 amounted to 22.7 per cent. Summary information regarding Catlin shares is contained in Table 1.

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

Catlin share information — Table 1

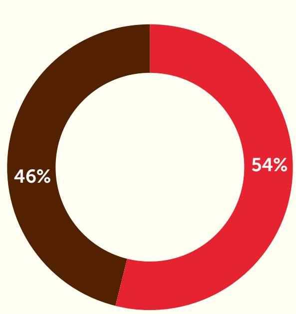
Ticker symbol (London Stock Exchange)	CGL
Closing price at 31 December 2014	671.0 pence
Closing price at 31 December 2013	580.5 pence
2014 share price performance	+15.6%
2014 total shareholder return	+22.7%
Maximum price during 2014	671.0 pence
Minimum price during 2014	483.7 pence
Average daily trading volume (London Stock Exchange)	834,000
Average daily trading volume (all platforms)	2,122,000
Market capitalisation at 31 December 2014	£2.43 billion
Market capitalisation at 31 December 2013	£2.10 billion
Ranking in FTSE 350 at 31 December 2014	133
Ranking in FTSE 350 at 31 December 2013	152

At 31 December 2014, there were 2,224 shareholders on the Group's register (2013: 2,180). Statistics regarding the Group's shareholders are analysed in Table 2 and Charts 3, 4 and 5.

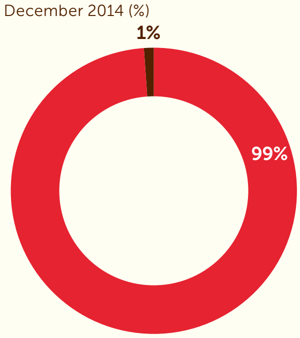
Breakdown of shareholders at 31 December 2014 — Table 2

Shares owned	Number of shareholders	Percentage of shareholders	Total shares owned	Percentage of total shares
0–50,000	1,891	85.03	8,370,987	2.30
50,001–100,000	73	3.28	5,315,830	1.47
100,001–500,000	140	6.29	33,397,732	9.21
500,001–1,000,000	52	2.34	35,489,613	9.79
1,000,001–5,000,000	50	2.25	105,499,585	29.10
5,000,001–10,000,000	14	0.63	101,953,467	28.12
over 10,000,000	4	0.18	72,532,657	20.01
Total	**2,224**	**100.00**	**362,559,871**	**100.00**

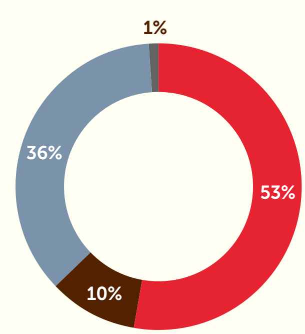
Shareholders by type — Chart 3
at 31 December 2014 (%)



Shareholders by percentage of shares held — Chart 4
at 31 December 2014 (%)



Shareholders by location — Chart 5
at 31 December 2014 (%)[1]



1 Includes owners of 25,000 or more shares where location is known

Investor Relations

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

Total shareholder return

Catlin shares produced a total shareholder return of 173.8 per cent during the five-year period from 1 January 2010 through 31 December 2014. This compares with a total shareholder return of 51.2 per cent produced by the FTSE 350 during the same period. Since the Group's initial public offering in 2004, Catlin shares have produced a total shareholder return of 284.8 per cent, compared with 132.5 per cent for the FTSE 350 as illustrated in Chart 6.

Total shareholder return
1 April 2004 – 31 December 2014
Chart 6

Analyst coverage

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

Dividends

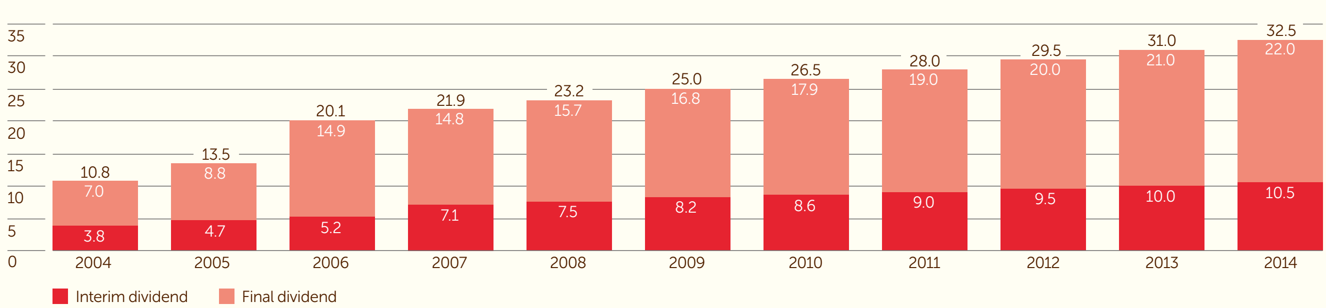
Catlin is committed to providing an attractive return to shareholders through dividends. The payment of dividends is linked to recent trends in the Group's performance as well as to its future prospects. The Group aims to increase dividends incrementally on a year-to-year basis.

The final dividend for the year ended 31 December 2014 of 22 pence per share is payable on 19 March 2015 to shareholders of record at the close of business on 20 February 2015.

Subject to the completion of the sale of Catlin's investment in Box Innovation Group Limited (trading as 'Insure the Box') and receipt of the proceeds therefrom, the Catlin Board may declare and pay a special dividend of approximately 12 pence per Catlin share to Catlin shareholders from the distributable surplus from the sale. The Catlin Board expects that the disposal will complete during the first quarter of 2015 and, accordingly, to declare and pay the special dividend promptly thereafter.

Chart 7 shows the Group's dividend history. Since its initial public offering in 2004, Catlin has increased its regular annual dividend by 201 per cent (not including the special dividend). The dividends declared by Catlin since the IPO amount to more than US$1.4 billion.

Dividend history (pence)[1]
Chart 7



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

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

ADRs

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

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

Debt investors

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

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

Annual General Meeting

The Annual General Meeting will be held at noon on Thursday 6 August 2015 at the Catlin Group offices at Washington House, 5th Floor, 16 Church Street, Hamilton, Bermuda HM 11.

Shareholder and investor enquiries

Catlin Investor Relations Department
Tel: +44 (0)20 7458 5726
E-mail: investor.relations@catlin.com

Share/depositary interest registration (Capita IRG)
0871 664 0300 (UK)[1]
+44 (0)20 8639 3399 (elsewhere)

1 Calls cost 10 pence per minute plus network extras

Five-Year Financial Summary

(US dollars in millions except share amounts and as indicated)

	2014	2013	2012	2011	2010
Operational information					
Revenues					
Gross premiums written	**5,966**	$5,309	$4,972	$4,513	$4,069
Reinsurance premiums ceded	**(1,621)**	(1,257)	(1,138)	(678)	(751)
Net premiums earned	**4,160**	3,948	3,604	3,612	3,219
Net investment return	**226**	124	158	248	205
Change in fair value of catastrophe swaps/derivatives	**–**	–	–	–	(15)
Other income	**14**	11	8	4	2
Total revenues	**4,400**	4,083	3,770	3,864	3,411
Expenses					
Losses and loss expenses	**2,183**	2,063	2,020	2,529	1,852
Policy acquisition costs	**986**	882	796	759	684
Administrative and other expenses	**717**	661	586	504	457
Financing costs	**17**	19	14	10	15
Net losses/(gains) on foreign currency	**9**	26	15	(9)	(3)
Total expenses	**3,912**	3,651	3,431	3,793	3,005
Net income before income tax	**488**	432	339	71	406
Income tax (expense)/benefit	**(26)**	4	10	11	(25)
Net income/(loss)	**462**	436	349	82	381
Preferred stock dividends	**(44)**	(44)	(44)	(44)	(44)
Net income/(loss) to common stockholders	**418**	392	305	38	337
Basic earnings per share	**$1.17**	$1.11	$0.88	$0.11	$0.98
Diluted earnings per share	**$1.11**	$1.08	$0.83	$0.11	$0.93
Balance sheet information					
Total cash and investments	**9,275**	9,217	8,774	8,388	8,021
Total assets	**15,347**	14,520	14,041	12,959	12,082
Reserves for losses and loss expenses	**6,705**	6,709	6,686	6,467	5,549
Unearned premiums	**3,062**	2,728	2,552	2,119	1,886
Total stockholders' equity	**3,992**	3,783	3,512	3,298	3,448
Key statistics					
Loss ratio	**52.5%**	52.3%	56.0%	70.0%	57.5%
Attritional loss ratio	**50.6%**	50.1%	50.6%	50.0%	51.6%
Expense ratio	**34.3%**	33.3%	34.0%	32.6%	32.3%
Combined ratio	**86.8%**	85.6%	90.0%	102.6%	89.8%
Total investment return	**2.6%**	1.5%	2.0%	3.1%	2.7%
Return on net tangible assets	**16.3%**	17.0%	14.6%	1.7%	16.3%
Return on equity	**13.1%**	13.4%	11.3%	1.3%	12.5%
Effective tax rate	**5.3%**	(0.9%)	(2.8%)	(15.6%)	6.3%
Book value per share (sterling)	**6.07**	5.37	5.14	5.06	5.41
Book value per share (US$)	**9.47**	8.92	8.32	7.85	8.34
Net tangible assets per share (sterling)	**4.95**	4.32	4.05	3.93	4.24
Net tangible assets per share (US$)	**7.73**	7.17	6.56	6.08	6.53
Dividends per share (UK pence)	**32.5**	31.0	29.5	28.0	26.5
Dividends per share (US cents)	**51.2**	49.8	46.0	44.9	42.5

Catlin Offices

At 31 December 2014, Catlin operated 55 offices in 25 countries.

Bermuda
Hamilton

London
Colchester
Guernsey
Ipswich
London

US
Annapolis
Atlanta
Bogotá[1]
Boston
Chicago
Cleveland
Columbus
Hartford
Houston
Lexington
Miami
New York
Philadelphia
Sao Paulo[1]
Scottsdale
Summit
Walnut Creek
Woodland Hills

Europe
Antwerp
Barcelona
Bergen
Cologne
Copenhagen
Genoa
Innsbruck
Lausanne
Madrid
Munich
Oslo
Paris
Rome
Rotterdam
Stockholm
Vienna
Wroclaw
Zurich

Asia-Pacific
Beijing
Dubai
Hong Kong
Kuala Lumpur
Melbourne
Mumbai
Shanghai
Singapore
Sydney
Tokyo

Canada
Calgary
Montreal
Toronto
Vancouver

1 The Bogotá and Sao Paulo offices are part of the US hub

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