CATLIN

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CATLIN GROUP LIMITED ANNOUNCES FINANCIAL RESULTS FOR SIX MONTHS ENDED 30 JUNE 2014

Record Profit Before Tax and Net Underwriting Contribution in First-Half 2014

HAMILTON, Bermuda – Catlin Group Limited (‘CGL’: London Stock Exchange), the international specialty property/casualty insurer and reinsurer, announces its financial results for the six months ended 30 June 2014.

Highlights:

- Strategy delivering earnings growth in challenging market conditions
- 118 per cent increase in profit before tax to US$318 million (30 June 2013: US$145 million)
- 129 per cent increase in net income to common stockholders to US$273 million (30 June 2013: US$118 million)
- 21.3 per cent annualised return on net tangible assets (30 June 2013: 10.3 per cent)
- 17.1 per cent annualised return on equity (30 June 2013: 8.1 per cent)
- 21 per cent increase in net underwriting contribution to US$536 million (30 June 2013: US$ 441 million)
- 50.2 per cent attritional loss ratio (30 June 2013: 50.9 per cent)
- 85.0 per cent combined ratio (30 June 2013: 88.1 per cent)
- 1.6 per cent total investment return for period (30 June 2013: 0.2 per cent)
- 11 per cent increase in gross premiums written to US$3.66 billion (30 June 2013: US$3.30 billion)
  - Underlying growth in gross premiums written of 5 per cent
- 5 per cent increase in interim dividend to 10.5 pence or 17.7 US cents per share (30 June 2013: 10.0 pence or 15.5 US cents)

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US$m	30 June 2014	30 June 2013
Gross premiums written	3,660	3,299
Net premiums written	2,607	2,437
Net premiums earned	2,038	1,913
Net underwriting contribution[1]	536	441
Total investment return	148	16
Net income before income taxes	318	145
Net income to common stockholders	273	118
Earnings per share (US dollars)	$0.76	$0.34
Interim dividend per share (pence)	10.5p	10.0p
Interim dividend per share (US cents)	17.7¢	15.5¢
Loss ratio	50.6%	54.6%
Expense ratio[2]	34.4%	33.5%
Combined ratio[2]	85.0%	88.1%
Total investment return (for period)	1.6%	0.2%
Return on net tangible assets (annualised)[3]	21.3%	10.3%
Return on equity (annualised)[3]	17.1%	8.1%

	30 June 2014	30 June 2013	31 Dec 2013
Total assets	$16,245	$15,046	$14,594
Investments and cash	$9,284	$8,541	$9,217
Total stockholders' equity	$3,954	$3,491	$3,783
Net tangible assets (excluding preferred shares)	$2,736	$2,288	$2,564
Unearned premiums	$3,714	$3,323	$2,728
Net tangible assets per share (sterling)[4]	£4.45	£4.22	£4.32
Net tangible assets per share (US dollars)[4]	$7.61	$6.41	$7.17
Book value per share (sterling)[4]	£5.47	£5.35	£5.37
Book value per share (US dollars)[4]	$9.36	$8.13	$8.92

1 Net underwriting contribution is defined as net premiums earned less losses and loss expenses and policy acquisition costs.

2 The expense ratio and the combined ratio include policy acquisition costs and most administrative expenses. These ratios exclude profit-related compensation and certain other Group corporate costs. Personal performance bonuses, which are no longer guaranteed, are not included in the expense ratio. The expense ratio at 30 June 2013 has been restated to reflect this change, which was included in the full-year 2013 financial results.

3 Returns on net tangible assets and equity exclude non-controlling preferred stock and are calculated by reference to opening balances.

4 Book value and net tangible assets per share exclude non-controlling preferred stock and treasury shares.

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Management Summary:

Catlin produced record profit before tax and net underwriting contribution during the first half of 2014. Profits before tax increased by 118 per cent to US$318 million (30 June 2013: US$145 million). The impact of foreign exchange on profits during the first half was marginal. The Group's annualised return on net tangible assets amounted to 21.3 per cent (30 June 2013: 10.3 per cent), while annualised return on equity was 17.1 per cent (30 June 2013: 8.1 per cent).

Net underwriting contribution increased by 21 per cent to US$536 million (30 June 2013: US441 million). While all areas of the business performed well, the Group's non-London underwriting hubs continue to achieve profitable growth. These hubs produced 48 per cent of total net underwriting contribution (30 June 2013: 43 per cent).

Average weighted premium rates across Catlin's risk portfolio decreased by 3.2 per cent during the period. Rates for catastrophe-exposed business classes decreased by 6.4 percent, while rates for non-catastrophe classes decreased by only 0.1 per cent. The Group experienced a significantly better rating environment in the US and International (Europe, Asia-Pacific and Canada) hubs than in the London and Bermuda hubs.

The Group increased the interim dividend to stockholders by 5 per cent to 10.5 pence per share (17.7 US cents).

Stephen Catlin, Chief Executive of Catlin Group Limited, said:

> "Our strategy is delivering excellent results. During the first half of 2014, profits before tax increased by 118 per cent, while our annualised return on net tangible assets was 21.3 per cent. Net underwriting contribution reached an all-time high, while the attritional loss ratio remained low, reflecting Catlin's underwriting discipline.
>
> "All areas of the business performed well. Average weighted premium rates decreased by 3.2 per cent across our portfolio, with rating conditions remaining more resilient in our US, Europe, Asia-Pacific and Canada hubs than in the London and Bermuda markets. We continue to see opportunity for further profitable growth, thanks to our investment in our hubs world-wide.
>
> "Our global footprint gives us the access to a wide range of business, both by class and by geography. Our reputation for underwriting and claims excellence is increasingly recognised by brokers and clients, supporting our leadership position in the marketplace and enhancing business retention.
>
> "Catlin continues to build a business for the future, and we look ahead with confidence."

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Notes to editors:

1. Catlin Group Limited, headquartered in Bermuda, is an international specialist property/ casualty insurer and reinsurer that underwrites worldwide through six underwriting hubs. Catlin shares are traded on the London Stock Exchange (ticker symbol: CGL). More information about Catlin can be found at **www.catlin.com**.

2. Detailed information regarding Catlin's operations and financial results for the six months ended 30 June 2014 is attached, including management commentary and unaudited consolidated financial statements.

3. Catlin management will make a presentation to investment analysts at 10am BST today at the Group's London office. The presentation will be broadcast live on the Group's website (www.catlin.com). The webcast will also be available on demand later today.

4. Catlin's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ('US GAAP'). The Group reports in US dollars.

5. Rate of exchange at 30 June 2014: £1= US$1.71 (31 December 2013: £1= US$1.66; 30 June 2013: £1=US$1.52); average rate for six months ended 30 June 2014: £1 = US$1.68 (31 December 2013:£1=US$1.57; 30 June 2013: £1 = US$1.55).

6. Earnings per share are based on weighted average shares outstanding of 358 million during the period ended 30 June 2014. Book value per share is based on 359 million shares outstanding at 30 June 2014. Shares outstanding exclude Treasury Shares held in trust.

7. Catlin has established operating hubs in London, Bermuda, the United States, the Asia-Pacific region, Europe and Canada. Through these hubs, Catlin works closely with policyholders and their brokers. The hubs also provide Catlin with product and geographic diversity. Altogether, Catlin operates more than 50 offices in 22 countries.

8. Catlin's underwriting units are rated 'A' by A.M. Best and Standard & Poor's.

9. Catlin is the title sponsor of the Catlin Seaview Survey, a major scientific expedition that is documenting the health of coral reefs around the world. During 2012 the Survey investigated the Great Barrier Reef off Australia, while during 2013 it studied coral reefs near Bermuda and in the Caribbean. The 2014 Survey is focusing on the Coral Triangle in Asia. The impartial scientific data gathered by the Catlin Seaview Survey is intended to strengthen the understanding of how changes beneath the oceans' surface are impacting the rest of our planet. More information is available at **www.CatlinSeaviewSurvey.com.**

I am pleased to report that Catlin produced a strong performance during the first six months of 2014. Both net underwriting contribution and profit before tax reached record levels, further demonstrating the value of Catlin's consistent operating strategy, our international infrastructure and our diverse portfolio of business.

Profits before tax increased by 118 per cent to US$318 million (30 June 2013: US$145 million), while net income to common stockholders rose by 129 per cent to US$273 million (30 June 2013: US$118 million). The impact of foreign exchange on profits during the first half was marginal. The Group's return on annualised net tangible assets amounted to 21.3 per cent (30 June 2013: 10.3 per cent), while annualised return on equity was 17.1 per cent (30 June 2013: 8.1 per cent).

Net underwriting contribution – our basic method of evaluating underwriting performance – increased by 21 per cent to US$536 million (30 June 2013: US$441 million). The attritional loss ratio – which measures the quality of our underwriting before major events and reserve movements – remained low at 50.2 per cent (30 June 2013: 50.9 per cent), and illustrates the Group's underwriting discipline. The loss ratio was 50.6 per cent (30 June 2013: 54.6 per cent).

While all areas of the business performed well, I am particularly proud that the non-London underwriting hubs continue to grow profitably. The net underwriting contribution produced by the non-London hubs amounted to 48 per cent of the Group total (30 June 2013: 43 per cent).

There has been considerable commentary about the current state of the marketplace. While it is true that rates for many classes of business have deteriorated during the first half of 2014, I do not believe that the rate environment is as bad as some observers contend, and margins are still adequate for most business classes. Average weighted premium rates across Catlin's risk portfolio decreased by 3.2 per cent during the period. Rates for catastrophe-exposed business classes decreased by 6.4 percent, while rates for non-catastrophe classes decreased by only 0.1 per cent.

The Group is experiencing a better rating environment in our US and International (Europe, Asia-Pacific and Canada) hubs than in the London and Bermuda hubs. Average weighted premium rates for insurance business rose by 2.3 per cent in the US hub during the period, while insurance rates decreased by an average of 1.8 per cent in the International hubs. This compares with the London hub, where average weighted rates for insurance business decreased by an average of 2.6 per cent. For reinsurance business, the picture is even more striking: reinsurance rates decreased by a weighted average of 1.0 per cent in the US hub and 1.7 per cent in the International hubs, compared with average rate decreases of 7.5 per cent in Bermuda and 7.7 per cent in London.

Catlin's global footprint, which now produces significant business volumes and underwriting profits, provides us with greater flexibility and choice when deciding what business to write. This is a significant competitive advantage.

The Group achieved a 1.6 per cent total investment return for the period (30 June 2013: 0.2 per cent), reflecting an improved performance from the fixed income portfolio as well as continued strong performance from other investment assets.

Dividends and Shareholder Value

The Board of Directors has declared an interim dividend of 10.5 pence per share (17.7 US cents), payable on 22 September 2014 to shareholders of record on 22 August 2014. This represents a 5 per cent increase over the 2013 interim dividend of 10 pence per share (15.5 US cents).

Since the Group's initial public offering in 2004, the interim dividend per share has increased by 176 per cent (adjusted for the impact of the 2009 Rights Issue). Including the interim 2014 dividend, Catlin has declared more than US$1.25 billion in dividends since the IPO.

Net tangible assets per share increased by 19 per cent over the past 12 months to US$7.61 (30 June 2013: US$6.41). In sterling terms, net tangible assets per share rose by 5 per cent to £4.45 (30 June 2013: £4.22). However, Catlin believes that dividends paid constitute an important part of shareholder value; the total of the 31.0 pence (49.8 US cents) in dividends paid by the Group during the past 12 months plus net tangible assets per share increased by 27 per cent in US dollars and 13 per cent in sterling compared with net tangible assets at 30 June 2013.

Financial Review

Premiums

Gross premiums written during the six months ended 30 June 2014 increased by 11 per cent to US$3.66 billion (30 June 2013: US$3.30 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 the first half of 2014 in the London and Bermuda underwriting hubs. After adjusting for these items, the underlying growth in gross premiums written was approximately 5 per cent.

Net premiums earned increased by 6 per cent to US$2.04 billion (30 June 2013: US$1.91 billion). The underlying growth in net premiums earned was approximately 3 per cent. As previously indicated, growth in net premiums earned is expected to lag growth in gross premiums written by 4 to 5 percentage points for the full year, largely due to the increased amounts of premium ceded to third-party capital providers.

Net investment return

Total investment return, excluding investment expenses, was 1.6 per cent during the first half and amounted to US$148 million (30 June 2013: 0.2 per cent and US$16 million). After deducting investment expenses, net investment return amounted to US$142 million (30 June 2013: US$9 million). Further analysis of the Group's investment performance is provided on page 9 of this commentary.

Net gains/(losses) on foreign currency

The Group sustained net gains on foreign currency amounting to US$3 million (30 June 2013: US$12 million loss). The largest component of this gain was the translation of Australian dollar balances relating to the Catlin Syndicate at Lloyd's.

Losses and loss expenses

Losses and loss expenses decreased by 1 per cent to US$1.03 billion (30 June 2013: US$1.04million). Included in first-half 2014 losses and loss expenses are US$57 million in catastrophe and large single-risk losses, net of reinsurance but gross of reinstatement premiums (30 June 2013: US$126 million).

Releases from prior year loss reserves amounted to US$49 million, equal to 1 per cent of opening reserves (30 June 2013: US$56 million or 1 per cent). The release is comparable with releases from prior-year reserves during the first six months of previous years, as shown in the table below.

US$m	Reserve release in first half	First-half reserve release as % of opening reserves	Total reserve release for year
2014	**49**	**1%**	**--**
2013	56	1%	167
2012	30	1%	139
2011	0	0%	103
2010	29	1%	144
2009	39	1%	94
2008	72	2%	118
2007	15	1%	139

The loss ratio for the period amounted to 50.6 per cent (30 June 2013: 54.6 per cent).

Policy acquisition costs, administrative and corporate expenses

The expense ratio increased to 34.4 per cent (30 June 2013: 33.5 per cent), primarily due to a reclassification of certain London underwriting hub acquisition costs, which has no impact on profits. An analysis of the major components of the expense ratio is shown in the table below.

	30 June 2014	30 June 2013
Policy acquisition costs	**23.1%**	22.3%
Expenses relating to underwriting	**11.3%**	11.2%
	34.4%	33.5%

The expense ratio excludes performance-related compensation and certain Group corporate costs unrelated to underwriting. The expense ratio for the first half of 2013 has been restated as personal performance bonuses, which are no longer guaranteed, are now not included in the expense ratio. The expense ratio published in the full-year 2013 results took this change into account.

Provisions for performance-related compensation increased by 119 per cent to US$90 million in the first half of 2014 (30 June 2013: US$41 million). The increase corresponds to the Group's increased profitability. Corporate costs unrelated to underwriting increased by 29 per cent to US$46 million (30 June 2013: US$36 million).

Income tax expense

Income tax expense of US$23 million is based on the Group's full-year profit forecast, split between operating jurisdictions (30 June 2013: US$5 million). The effective tax rate during the first half was 7.2 per cent (30 June 2013: 3.3 per cent).

Net income to common stockholders

The Group produced net income before income taxes amounting to US$318 million (30 June 2013: US$145 million). Net income to common stockholders, after income taxes and dividends to non-controlling preferred stockholders, was US$273 million (30 June 2013: US$118 million).

The table below analyses the major components of net income to common stockholders.

US$m	**30 June 2014**	30 June 2013
Net underwriting contribution	**536**	441
Total investment return	**148**	16
Expenses relating to underwriting	**(230)**	(215)
Performance-related compensation	**(90)**	(41)
Other expenses	**(46)**	(36)
Financing and other	**(3)**	(8)
Foreign exchange	**3**	(12)
Profit before tax	**318**	145
Income tax expense	**(23)**	(5)
Net income	**295**	140
Non-controlling preferred stock dividend	**(22)**	(22)
Net income to common stockholders	**273**	118

The Group produced an annualised return on net tangible assets of 21.3 per cent (30 June 2013: 10.3 per cent). The annualised return on equity amounted to 17.1 per cent (30 June 2013: 8.1 per cent).

Stockholders' equity

Total stockholders' equity amounted to US$3.95 billion at 30 June 2014, an increase of 5 per cent compared with US$3.78 billion at 31 December 2013 and an increase of 13 per cent compared with US$3.49 billion at 30 June 2013. Movements in stockholders' equity during the first half of 2014 are analysed in the table below:

US$m	
Total stockholders' equity – 1 January 2014	**3,783**
Net income	**295**
Other comprehensive income	**11**
Common share dividends	**(123)**
Non-controlling preferred stock dividends	**(22)**
Other	**10**
Total stockholders' equity – 30 June 2014	**3,954**

Capital

The Group’s capital position is broadly similar to that reported at 31 December 2013. A full disclosure regarding the capital position will be provided with the full-year results, which is the Group’s practice.

The Group has put in place a number of strategic third-party capital arrangements. Several Special Purpose Syndicates provide whole-account quota share reinsurance to the Catlin Syndicate 2003. The programme was put in place in 2012 and expanded for both 2013 and 2014. Effective for 2014, the Group also established a Portfolio Participation Vehicle that provides whole-account reinsurance protection of all of the Group’s non-Lloyd’s business.

The Group recognised US$25 million in commissions and fees in the first half of 2014 relating to these third-party capital arrangements (30 June 2013: US$13 million).

The Group also has in place an Adverse Development Cover that provides protection against the deterioration, subject to limits, of loss reserves relating to the Group’s 2011 and prior underwriting years. The purchase of this coverage improves the efficiency of the Group’s capital base.

Underwriting Review

Rating environment

Average weighted premium rates across the Group's portfolio of business decreased by 3.2 per cent during the six months ending 30 June 2014 (30 June 2013: 1.6 per cent increase). Average weighted premium rates for catastrophe-exposed classes decreased by 6.4% during the period (30 June 2013: 0.4 per cent increase), while average rates for non-catastrophe classes decreased by 0.1 per cent (30 June 2013: 2.4 per cent increase).

The following table shows the movements in the Group’s rate index for the overall portfolio as well as for catastrophe-exposed and non-catastrophe business classes from 1999 through 30 June 2014.

	H1 2014	2013	2012	2011	2010	2009	2008	2007
Catastrophe classes	**264%**	282%	283%	261%	250%	253%	230%	251%
Non-catastrophe classes	**194%**	195%	192%	189%	189%	193%	187%	190%
All business classes	**214%**	221%	220%	211%	208%	211%	200%	209%
	2006	2005	2004	2003	2002	2001	2000	1999
Catastrophe classes	256%	205%	207%	213%	193%	135%	107%	100%
Non-catastrophe classes	200%	205%	208%	200%	175%	135%	103%	100%
All business classes	217%	204%	206%	204%	181%	135%	105%	100%

Note: Index = 100% at 31 December 1999; index values are at 31 December except for 2014

Decreases in rates for catastrophe-exposed business classes were generally more substantial than for non-catastrophe classes. For example, the table below shows the movements for Property Catastrophe Excess of Loss reinsurance rates at key renewal dates during 2013 and 2014.

Renewal date	US business	Non-US business	Weighted average
1 January 2013	4%	0%	2%
1 April 2013	(1%)	(1%)	(1%)
1 June 2013	(9%)	0%	(8%)
1 July 2013	(5%)	(3%)	(4%)
1 January 2014	(12%)	(8%)	(9%)
1 April 2014	(10%)	(15%)	(14%)
1 June 2014	(17%)	(7%)	(16%)
1 July 2014	(12%)	(13%)	(12%)

The table below shows changes in average weighted premium rates for each of the Group’s six product groups during the first six months of 2014 and 2013.

	30 June 2014	30 June 2013
Aerospace	**(7%)**	(7%)
Casualty	**3%**	8%
Energy/Marine	**(4%)**	1%
Property	**(3%)**	3%
Reinsurance	**(5%)**	0%
Specialty/War & Political Risk	**(3%)**	(1%)

Rating conditions were generally stronger in the US and International (Europe, Asia-Pacific and Canada) underwriting hubs than in the London and Bermuda hubs, which write significant amounts of wholesale insurance business and Property Catastrophe Excess of Loss reinsurance. In addition, rate movements were generally more favourable for insurance classes of business than for reinsurance classes. The table below shows average weighted premium rate movements by financial report segment for insurance classes, reinsurance classes and overall.

		Rate movement (%)	Gross premiums written (US$m)
US	Insurance	2.3%	397
	Reinsurance	(1.0%)	313
	Overall	0.6%	710
International	Insurance	(1.8%)	372
	Reinsurance	(1.7%)	463
	Overall	(1.7%)	835
London	Insurance	(2.6%)	1,222
	Reinsurance	(7.7%)	417
	Overall	(4.3%)	1,639
Bermuda	Insurance	8.7%	48
	Reinsurance	(7.5%)	428
	Overall	(5.8%)	476

Premium volume

The table below shows the development of the gross premiums written by reporting segment during the first six months of 2014 and prior periods, along with an estimate of gross premiums written for the full-year 2014.

US$m	London/UK	US	Bermuda	International	Group total
H1 2014	**1,639**	**710**	**476**	**835**	**3,660**
H1 2013	1,473	643	465	718	3,299
FY 2014[1]	**2,575**	**1,350**	**575**	**1,200**	**5,700**
FY 2013	2,474	1,213	577	1,045	5,309
FY 2012	2,525	1,045	523	879	4,972
FY 2011	2,342	852	549	770	4,513
FY 2010	2,323	707	502	537	4,069
FY 2009	2,347	581	421	366	3,715
FY 2008	2,428	348	392	269	3,437

1 Estimate, which includes items such as foreign exchange and multiyear contracts

The non-London underwriting hubs produced 55 per cent of total gross premiums written (30 June 2013: 55 per cent).

The 11 per cent increase in gross premiums written by the London hub was inflated by the impact of such items as foreign exchange movements and the increase in premiums written for multiyear contracts. After adjusting for these items, the underlying growth in gross premiums written by the London hub was approximately 2.4 per cent.

Gross premiums written by the International segment increased by 16 per cent. An analysis of the gross premiums written by the three underwriting hubs included in this segment is shown in the table below.

US$m	**30 June 2014**	30 June 2013	30 June 2012	30 June 2011	30 June 2010
Europe	**516**	431	342	253	124
Asia-Pacific	**234**	209	170	159	118
Canada	**85**	78	65	59	45
Total	**835**	718	577	471	287

Underwriting performance

Loss ratio

The Group produced a loss ratio of 50.6 per cent during the first half of 2014 (30 June 2013: 54.6 per cent), the lowest in the past five years. The components of the first-half loss ratio during the past five years are shown in the table below.

	30 June 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010
Attritional loss ratio	**50.2%**	50.9%	50.0%	50.0%	50.7%
Catastrophe losses	**1.3%**	5.9%	0.0%	32.4%	9.3%
Large single-risk losses	**1.5%**	0.7%	3.4%	2.6%	6.7%
Reserve release	**(2.4%)**	(2.9%)	(1.8%)	0.0%	(1.8%)
Reported loss ratio	**50.6%**	54.6%	51.6%	85.0%	64.9%

The attritional loss ratio decreased in the first half of 2014, despite the fact that average weighted premium rates decreased during the period and in the second half of 2013.

The catastrophe loss ratio of 1.3 per cent during the period arose from two events: the 1 April earthquake in northern Chile and the hailstorms that impacted several European countries in June. Combined, these events created losses for Catlin amounting to US$24 million, net of reinsurance and reinstatement premiums. In the first half of 2013, three catastrophes produced losses to Catlin amounting to US$99 million, net of reinsurance and reinstatement premiums.

The Group incurred three large single-risk losses during the first half of 2014, all of which occurred in March: the disappearance of Malaysian Airlines Flight MH370, a barge collision in the United States and a fire at an offshore drilling rig. These losses amounted to US$31 million, net of reinsurance and reinstatement premiums (30 June 2013: US$14 million).

Two additional aviation large single-risk losses occurred during July 2014, which will be included in the Group's second-half results: the tragic loss of Malaysian Airlines Flight MH17 over eastern Ukraine and the aircraft losses caused by fighting at the Tripoli airport. Early estimates of aggregate net losses arising from these two events are less than US$50 million. Notwithstanding these losses, catastrophe and large-single risks losses to date in 2014 are lower than the historic average.

The Group released US$49 million from prior-year loss reserves during the first half of 2014, equivalent to 1 per cent of opening reserves (30 June 2013: US$56 million; 1 per cent).

Segmental performance
An analysis of underwriting results by reporting segment is contained in the table below.

US$m	London	US	Bermuda	International	Group total
Six months ended 30 June 2014					
Gross premiums written	**1,639**	**710**	**476**	**835**	**3,660**
Net premiums earned	**964**	**431**	**223**	**420**	**2,038**
Net underwriting contribution	**278**	**78**	**92**	**88**	**536**
Loss ratio	**47.0%**	**60.8%**	**35.3%**	**56.6%**	**50.6%**
Attritional loss ratio	**46.8%**	**57.7%**	**35.5%**	**58.0%**	**50.2%**
Six months ended 30 June 2013					
Gross premiums written	1,473	643	465	718	3,299
Net premiums earned	902	410	233	368	1,913
Net underwriting contribution	253	63	72	53	441
Loss ratio	47.9%	65.2%	46.3%	64.4%	54.6%
Attritional loss ratio	47.2%	56.2%	36.6%	63.0%	50.9%

The increase in gross premiums written by the London hub arose from several factors, including increased Energy and Property volumes and the increase in the volume of multiyear contracts. Net underwriting contribution rose due to favourable loss experience, both attritional and with regard to major events.

Gross premiums written by the US hub increased by 10 per cent as the investment in the United States by the Group continues to gain traction. The small growth in premiums written by the Bermuda hub reflects the competitive conditions for Property Catastrophe Excess of Loss reinsurance, which makes up a significant portion of the hub's portfolio. Conversely, the strong underwriting contribution produced by the Bermuda hub reflects the benign level of catastrophe losses in the first half.

The International segment's premium growth reflects several factors across the Europe, Asia-Pacific and Canada hubs, including the continued development of Catlin Re Switzerland. The International segment produced record first-half underwriting contribution totalling US$88 million, even though the Europe hub sustained losses from the European hailstorms, while the Asia-Pacific hub incurred losses from the disappearance of Flight MH370.

An analysis of underwriting performance by Catlin's six product groups is shown in the table below.

US$m	Gross premiums written	Net premiums earned	Underwriting contribution	Loss ratio
Six months ended 30 June 2014[1]				
Aerospace	**156**	**131**	**18**	**62.6%**
Casualty	**653**	**445**	**36**	**68.2%**
Energy/Marine	**570**	**323**	**103**	**46.1%**
Property	**382**	**280**	**100**	**36.1%**
Reinsurance	**1,621**	**841**	**284**	**44.2%**
Specialty/War & Political Risk	**278**	**196**	**87**	**33.2%**
Six months ended 30 June 2013[1]				
Aerospace	156	145	69	30.4%
Casualty	615	393	21	73.6%
Energy/Marine	484	290	69	52.7%
Property	337	240	49	51.7%
Reinsurance	1,443	769	190	54.7%
Specialty/War & Political Risk	264	198	76	39.8%

1 Product group results exclude effects of Syndicate 2020 movements, third-party capital, Adverse Development Cover and other items

The underwriting performance of each of the product groups – with the exception of the Aerospace product group – improved during the first half of 2014, both in terms of net underwriting contribution and loss ratio. The Aerospace group's performance reflects longstanding competitive market conditions, particularly for Airline business, as well as the MH370 loss.

The Group continues to diversify its Reinsurance portfolio, reducing the percentage of US business and Non-Proportional Property treaties. The development of the Reinsurance portfolio over the past five years is illustrated in the following table.

Development of Reinsurance Product Group H1 2009-2014

	H1 2014	H1 2013	H1 2012	H1 2011	H1 2010	H1 2009
Gross premiums written (US$m)	**1,621**	1,443	1,317	1,175	958	837
Percentage of total (%)						
Non-Proportional Property	**39%**	44%	47%	50%	54%	59%
Proportional Property	**30%**	27%	23%	25%	24%	16%
Casualty	**12%**	9%	9%	9%	10%	9%
Specialty	**13%**	11%	11%	8%	3%	4%
Marine	**6%**	9%	10%	8%	9%	12%
Non-Proportional Property Geographic split (%)						
US	**48%**	53%	56%	62%	67%	71%
Non-US	**52%**	47%	44%	38%	33%	29%

As the Group has significantly increased the size of its overall reinsurance portfolio, it has 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 71 per cent in the first half of 2009 to 48 per cent in the first half of 2014.

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 below. The modelled outcomes represent the Group's modelled net loss after allowing for all reinsurances. These modelled outcomes include adjustments for modelling deficiency and reductions in risk appetite limits for certain perils due to the increased uncertainty for losses from these sources.

Examples of catastrophe threat scenarios

Outcomes derived as at 1 April 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	917	949	1,299	775	597
Reinsurance effect [1]	(434)	(643)	(1,030)	(447)	(346)
Modelled net loss	483	306	269	328	251
Modelled net loss as a percentage of capital available for underwriting [2]	15.3%	9.7%	8.5%	10.4%	7.9%

1 Reinsurance effect includes the impact of both inwards and outwards reinstatements.

2 Capital available for underwriting amounted to US$3.16 billion at 31 December 2013, defined as total stockholders' equity (including non-controlling preferred stock), less intangible assets net of associated deferred tax.

Limitations
The modelled outcomes in the table above 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.

Investment Review

Catlin's average cash and investments amounted to US$9.18 billion during the period ended 30 June 2014 (30 June 2013: US$8.67 billion; 31 December 2013: US$8.86 billion). This portfolio produced a total investment return amounting to 1.6 per cent or US$148 million (30 June 2013: 0.2 per cent or US$16 million) for the period.

Cash and investments increased by 9 per cent to US$9.28 billion at 30 June 2014 (30 June 2013: US$8.54 billion; 31 December 2013: US$9.22 billion).

The performance of the Group's major categories of assets at 30 June 2014 is analysed in the table below.

US$m	Allocation at 30 June 2014	Average allocation during period	Average allocation during period %	Total return	Total return during period %
Fixed maturities and short-term investments	7,048	6,572	72%	72	1.1%
Cash and cash equivalents[1]	1,635	1,925	21%	5	0.3%
Other invested assets	601	681	7%	71	10.4%
	9,284	9,178	100%	148	1.6%

1 Included within cash and cash equivalents at 30 June 2014 are deposits of US$317 million managed centrally by Lloyd's, which are primarily invested in fixed maturity securities

A breakdown of the Group's investment performance appears in the table below.

	30 June 2014	30 June 2013
Investment income	**69**	61
Net gains/(losses) on fixed maturities and short-term investments	**25**	(76)
Net gains on other invested assets	**54**	31
Total investment return	**148**	16

The fixed income portfolio benefitted from lower rates and tighter credit spreads during the first half of 2014, producing net mark-to-market gains totalling US$25 million (30 June 2013: US$76 million loss). The Group also benefitted from strong performance from the special situations portfolio, private equity investments and investments aligned with Catlin's insurance industry expertise.

The portfolio's asset allocation at 30 June 2014 is shown in the table below.

	30 June 2014	30 June 2013	31 Dec 2013
Fixed maturities and short-term investments	**76%**	66%	68%
Cash and cash equivalents	**18%**	28%	25%
Other invested assets	**6%**	6%	7%
	100%	100%	100%

Cash and cash equivalents decreased during the first half to US$1.64 billion at 30 June 2014 (30 June 2013: US$2.41 billion; 31 December 2013: US$2.29 billion), primarily due to deployment of cash into core fixed income securities and reduction of deposits managed centrally by Lloyd's. Other invested assets decreased to US$601 million at 30 June 2014 (30 June 2013: US$537 million; 31 December 2013: US$688 million) as investments reaching fair value within the special situations portfolio were sold.

The duration of the total cash and investment portfolio was 1.2 years at 30 June 2014 (30 June 2013: 1.8 years; 31 December 2013: 1.1 years), compared with the liability benchmark of 2.6 years (30 June 2013: 2.8 years; 31 December 2013: 2.7 years). The duration of the fixed income portfolio was 1.5 years at 30 June 2014 (30 June 2013: 2.7 years; 31 December 2013: 1.5 years). The yield to maturity on the fixed income portfolio was 1.2 per cent at 30 June 2014 (30 June 2013: 1.5 per cent; 30 December 2013: 1.5 per cent).

The sensitivity of cash and investments to interest rates was US$1.1 million per basis point at 30 June 2014 (30 June 2013: US$1.5 million; 31 December 2013: US$1.0 million), while the sensitivity of the liability benchmark to changes in interest rates increased to US$2.5 million per basis point (30 June 2013 and 31 December 2013: US$2.4 million).

Liquid assets (defined as cash and cash equivalents, short-term investments and corporate bonds with less than 6 months to maturity, and government bonds) amounted to 52 per cent of the portfolio (30 June 2013: 55 per cent; 31 December 2013: 52 per cent).

The investment portfolio remains defensively positioned and high-quality. Ninety-nine per cent of Catlin's fixed income investments were held in government/agency securities or instruments rated 'A' or higher at 30 June 2013 (30 June 2013: 96 per cent ; 31 December 2013: 97 per cent).

The ratings of the Group's fixed income investments are analysed in the table below.

30 June 2014	Government/ agency	AAA	AA	A	BBB	Non-investment grade	Assets US$m[1]
US government/agencies	18%	--	--	--	--	--	1,241
Non-US government/ agencies	25%	--	--	--	--	--	1,699
Agency mortgage-backed securities	9%	--	--	--	--	--	640
Asset-backed securities	--	12%	*	*	_	*	838
Non-agency mortgage-backed securities	--	*	*	*	--	*	37
Commercial mortgage-backed securities	--	--	*	--	--	--	3
Covered bonds	--	9%	*	--	--	--	648
Corporate bonds	--	1%	12%	11%	*	1%	1,742
Total	52%	22%	13%	11%	*	1%	6,848

* Less than 0.5 per cent
1 Excludes fixed income derivatives

Catlin's investment strategy operates within a comprehensive market risk framework that is based on capital, liquidity and risk-adjusted returns. This framework is independently overseen by the Group Enterprise Risk Management team.

The Group's investment portfolio remains positioned for the possibility of rising interest rates. Should rates rise, the portfolio will benefit on an economic basis from higher yields, although the total return from fixed income investments as measured in the GAAP financial statements would be expected to reduce by mark-to-market losses. Other invested assets – particularly equities and private credit opportunities – are expected to benefit from the potential for improved economic fundamentals.

An increase in allocation to other invested assets is anticipated during the second half of the year as market opportunities arise in the Catlin expertise and special situation portfolios. Subject to market conditions, the target allocation remains US$1.0 billion.

Board of Directors

Two new Non-Executive Directors – Claus-Michael Dill and Beatrice Hollond – were elected to the Board of Directors at the Annual General Meeting in May.

Claus-Michael Dill was formerly Chief Executive Officer of AXA Konzern AG in Cologne, responsible for operations in Germany and Central Europe. Dr Dill 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.

Beatrice Hollond is Chairman of Keystone Investment Trust Plc and serves as a director of several other investment companies. Ms Hollond 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.

Bruce Carnegie-Brown, who served as Senior Independent Non-Executive Director since August 2010, retired from the Board of Directors at the conclusion of the Annual General Meeting.

I am pleased to welcome Claus-Michael and Beatrice to the Board. I would also like to thank Bruce for the significant contributions he has made during nearly four years as a Catlin Director.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are described on pages 37 to 41 of the Group's 2013 Annual Report and Accounts. The principal risks faced by the Group, as stated in the Annual Report, include:

- **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.

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

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.

Conclusion

Catlin's record performance during the first half of 2014 clearly demonstrates the advantages that our multiple-hub structure provides. Our global footprint gives the Group the opportunity to underwrite a broad range of profitable business. Our investment in the US and International hubs provides access to markets where rates are currently more favourable than in London and Bermuda, where wholesale and Property Catastrophe reinsurance business dominates.

Alongside the Group's geographic diversity, our focus on disciplined underwriting and delivering superior underwriting and claims service helps distinguish Catlin from competitors. In addition, the Group's commitment to five core values – transparency, accountability, teamwork, integrity and dignity – resonates with clients, brokers and our own employees. Our emphasis on service and fair dealing is key to our success and results in superior business retention.

Despite the competition in the marketplace, we believe that we are well-positioned for continued success in 2014 and beyond. Catlin continues to build a business for the future, and we look ahead with confidence.

Stephen Catlin
Chief Executive
7 August 2014

Catlin Group Limited
Consolidated Balance Sheets

As at 30 June 2014 and 2013 and 31 December 2013
(US dollars in millions)

	30 June 2014 (unaudited)	30 June 2013 (unaudited)	31 December 2013 (audited)
Assets			
Investments			
Fixed maturities, at fair value	**$6,846**	$5,495	$6,054
Short-term investments, at fair value	**202**	102	184
Other invested assets	**601**	537	688
Total investments	**7,649**	6,134	6,926
Cash and cash equivalents	**1,635**	2,407	2,291
Accrued investment income	**40**	34	39
Premiums and other receivables	**2,743**	2,503	1,845
Reinsurance recoverable on unpaid losses (net of bad debts)	**1,374**	1,425	1,336
Reinsurance recoverable on paid losses (net of bad debts)	**183**	107	144
Reinsurers' share of unearned premiums	**944**	746	529
Deferred policy acquisition costs	**640**	611	490
Intangible assets and goodwill	**720**	716	720
Unsettled trades receivable	**15**	102	51
Other assets	**302**	261	223
Total assets	**$16,245**	$15,046	$14,594
Liabilities and stockholders' equity			
Liabilities			
Reserves for losses and loss expenses	**$6,845**	$6,684	$6,709
Unearned premiums	**3,714**	3,323	2,728
Reinsurance payable	**1,134**	860	729
Accounts payable and other liabilities	**320**	317	350
Subordinated debt	**93**	91	93
Unsettled trades payable	**24**	105	59
Deferred tax liability (net)	**68**	175	140
Income taxes payable	**93**	-	3
Total liabilities	**$12,291**	$11,555	$10,811

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

Catlin Group Limited
Consolidated Balance Sheets
As at 30 June 2014 and 2013 and 31 December 2013
(US dollars in millions)

	30 June 2014 (unaudited)	30 June 2013 (unaudited)	31 December 2013 (audited)
Stockholders' equity			
Common stock	**$4**	$4	$4
Additional paid-in capital	**1,979**	1,942	1,976
Treasury stock	**(30)**	(42)	(37)
Accumulated other comprehensive loss	**(189)**	(235)	(200)
Retained earnings	**1,600**	1,232	1,450
Total common stockholders' equity	**3,364**	2,901	3,193
Non-controlling interest in preferred stock of consolidated subsidiary	**590**	590	590
Total stockholders' equity	**3,954**	3,491	3,783
Total liabilities and stockholders' equity	**$16,245**	$15,046	$14,594

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

Approved by the Board of Directors on 7 August 2014.

Stephen Catlin
Director

Benjamin Meuli
Director

Catlin Group Limited
Consolidated Income Statements (Unaudited)

For the six months ended 30 June 2014 and 2013
(US dollars in millions, except per share amounts)

	2014	2013
Revenues		
Gross premiums written	**$3,660**	$3,299
Reinsurance premiums ceded	**(1,053)**	(862)
Net premiums written	**2,607**	2,437
Change in net unearned premiums	**(569)**	(524)
Net premiums earned	**2,038**	1,913
Net investment return	**142**	9
Net gains/(losses) on foreign currency	**3**	(12)
Other income	**11**	7
Total revenues	**2,194**	1,917
Expenses		
Losses and loss expenses	**1,031**	1,045
Policy acquisition costs	**471**	427
Administrative and other expenses	**366**	292
Financing costs	**8**	8
Total expenses	**1,876**	1,772
Net income before income tax	**318**	145
Income tax expense	**(23)**	(5)
Net income	**295**	$140
Non-controlling preferred stock dividend	**(22)**	(22)
Net income to common stockholders	**$273**	$118
Earnings per common share		
Basic	**$0.76**	$0.34
Diluted	**$0.70**	$0.32

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

Catlin Group Limited
Consolidated Statements of Comprehensive Income (Unaudited)

For the six months ended 30 June 2014 and 2013
(US dollars in millions)

	2014	2013
Net income to common stockholders	**$273**	$118
Other comprehensive income/(loss), net of tax		
Translation adjustments	**11**	(41)
Total other comprehensive income/(loss)	**11**	(41)
Comprehensive income to common stockholders	**$284**	$77

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

Catlin Group Limited
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the six months ended 30 June 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	-	-	-	-	118	-	118
Other comprehensive loss	-	-	-	(41)	-	-	(41)
Stock compensation expense	-	12	-	-	-	-	12
Dividends	-	-	-	-	(110)	-	(110)
Distribution of treasury stock held by Employee Benefit Trust	-	(31)	31	-	-	-	-
Balance 30 June 2013	$4	$1,942	$(42)	$(235)	$1,232	$590	$3,491
Balance 1 January 2014	**$4**	**$1,976**	**$(37)**	**$(200)**	**$1,450**	**$590**	**$3,783**
Net income to common stockholders	-	-	-	-	273	-	273
Other comprehensive income	-	-	-	11	-	-	11
Stock compensation expense	-	31	-	-	-	-	31
Dividends	-	-	-	-	(123)	-	(123)
Treasury stock purchased	-	-	(21)	-	-	-	(21)
Distribution of treasury stock held in Employee Benefit Trust	-	(28)	28	-	-	-	-
Balance 30 June 2014	**$4**	**$1,979**	**$(30)**	**$(189)**	**$1,600**	**$590**	**$3,954**

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

Catlin Group Limited
Consolidated Statements of Cash Flows (Unaudited)

For the six months ended 30 June 2014 and 2013
(US dollars in millions)

	2014	2013
Cash flows provided by operating activities		
Net income	**$295**	$140
Adjustments to reconcile net income to net cash provided by operations:		
Amortisation and depreciation	**12**	10
Amortisation of net discounts on fixed maturities	**22**	24
Net losses/(gains) on investments	**(79)**	45
Changes in operating assets and liabilities:		
Reserves for losses and loss expenses	**94**	119
Unearned premiums	**968**	819
Premiums and other receivables	**(894)**	(690)
Deferred policy acquisition costs	**(148)**	(156)
Reinsurance recoverable on unpaid losses	**(28)**	(46)
Reinsurance recoverable on paid losses	**(38)**	(6)
Reinsurers' share of unearned premiums	**(409)**	(292)
Reinsurance payable	**395**	277
Accounts payable and other liabilities	**(64)**	14
Deferred taxes	**(74)**	(3)
Net income tax payable	**90**	(1)
Other	**31**	(141)
Net cash flows provided by operating activities	**173**	113
Cash flows used in investing activities		
Purchases of fixed maturities	**(4,434)**	(2,137)
Proceeds from sales of fixed maturities	**3,510**	1,956
Proceeds from maturities of fixed maturities	**153**	130
Net purchases, sales and maturities of short-term investments	**(20)**	15
Purchases of other invested assets	**(340)**	(278)
Proceeds from the sales and redemptions of other invested assets	**485**	347
Net purchases and sales of property and equipment	**(32)**	(14)
Net cash flows (used in)/provided by investing activities	**(678)**	19

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

Catlin Group Limited
Consolidated Statements of Cash Flows (Unaudited)
For the six months ended 30 June 2014 and 2013
(US dollars in millions)

	2014	2013
Cash flows used in financing activities		
Dividends paid on common stock	**(123)**	(110)
Dividends paid on non-controlling preferred stock	**(22)**	(22)
Purchase of treasury stock	**(21)**	-
Net cash flows used in financing activities	**(166)**	(132)
Net decrease in cash and cash equivalents	**(671)**	-
Effect of exchange rate changes	**15**	(67)
Cash and cash equivalents – beginning of period	**2,291**	2,474
Cash and cash equivalents – end of period	**$1,635**	$2,407
Supplemental cash flow information		
Taxes paid	**$7**	$11
Interest paid	**$2**	$2
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	**$651**	$1,174
Cash equivalents	**$984**	$1,233

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

1 General

Basis of presentation
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 unaudited interim consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ('US GAAP') for interim financial statements. The accounting policies applied are consistent with those set out in the Consolidated Financial Statements for the year ended 31 December 2013.

Certain insignificant reclassifications have been made to prior period amounts to conform to the 2014 presentation.

2 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.

Net underwriting contribution by segment for the period ended 30 June 2014 is as follows:

(US dollars in millions)	London	Bermuda	US	International	Total
Gross premiums written	**$1,639**	**$476**	**$710**	**$835**	**$3,660**
Net premiums earned	**964**	**223**	**431**	**420**	**2,038**
Losses and loss expenses	**(453)**	**(78)**	**(262)**	**(238)**	**(1,031)**
Policy acquisition costs	**(233)**	**(53)**	**(91)**	**(94)**	**(471)**
Net underwriting contribution	**$278**	**$92**	**$78**	**$88**	**$536**

Net underwriting contribution by segment for the period ended 30 June 2013 is as follows:

(US dollars in millions)	London	Bermuda	US	International	Total
Gross premiums written	$1,473	$465	$643	$718	$3,299
Net premiums earned	902	233	410	368	1,913
Losses and loss expenses	(433)	(108)	(267)	(237)	(1,045)
Policy acquisition costs	(216)	(53)	(80)	(78)	(427)
Net underwriting contribution	$253	$72	$63	$53	$441

The effects of intra-Group reinsurance contracts are excluded from segmental revenue and results, as this is the basis upon which the performance of each segment is assessed.

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.

3 Investments

Fixed maturities
The fair values of fixed maturities at 30 June 2014 and 2013 are as follows:

(US dollars in millions)	**2014**	2013
US government and agencies	**$1,241**	$703
Non-US governments	**1,699**	1,430
Corporate securities	**2,390**	1,828
Asset-backed securities	**838**	717
Mortgage-backed securities	**680**	805
Interest rate derivative contracts	**1**	12
Credit default derivative contracts	**(3)**	-
Total fixed maturities	**$6,846**	$5,495

Fixed maturities at 30 June 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	**$393**	$450
Due after one through five years	**3,859**	2,644
Due after five years through ten years	**910**	750
Due after ten years	**168**	117
	5,330	3,961
Asset-backed securities	**838**	717
Mortgage-backed securities	**680**	805
Interest rate derivative contracts	**1**	12
Credit default derivative contracts	**(3)**	-
Total fixed maturities	**$6,846**	$5,495

The Group did not have an aggregate investment with a single counterparty, other than the US government, in excess of 10 per cent of total investments at 30 June 2014 and 2013.

Included within cash and cash equivalents at 30 June 2014 are deposits of $317 million managed centrally by Lloyd's, which are primarily invested in fixed maturity securities.

Other invested assets

Other invested assets by category at 30 June 2014 and 2013 are as follows:

(US dollars in millions)	2014	2013
Hedge funds	**$12**	$28
Equity funds	**87**	58
Equity securities	**261**	252
Loan instruments	**200**	170
Other invested assets at fair value	**560**	508
Equity method investments	**41**	29
Total other invested assets	**$601**	$537

Hedge funds are a portfolio comprising nine individual hedge funds. The Group has issued redemption notices in respect of all hedge funds and has received the majority of the proceeds. The balance will be paid on the completion of the 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 $211 million of quoted equity securities and $50 million of private equity.

Loan instruments comprise holdings in syndicated loans and other unquoted private debt.

There are unfunded commitments related to investments in funds of $67 million as at 30 June 2014 (30 June 2013: $40 million).

Equity method investments comprise investments over which the Group exercises significant influence. These investments are accounted for using the equity method. At 30 June 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 losses of equity method investments included within the Consolidated Income Statements was $2 million (2013: $1 million profit). 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 periods ended 30 June 2014 and 2013 are as follows:

(US dollars in millions)	2014	2013
Investment income	**$69**	$61
Net gains/(losses) on fixed maturities and short-term investments	**25**	(76)
Net gains on other invested assets	**54**	31
Total investment return	**148**	16
Investment expenses	**(6)**	(7)
Net investment return	**$142**	$9

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 12. Finally, the Group also utilises trust funds set up for the benefit of certain ceding companies as an alternative to LOCs.

The total value of these restricted assets by category at 30 June 2014 and 2013 are as follows:

(US dollars in millions)	**2014**	2013
Fixed maturities	**$2,837**	$2,858
Short-term investments	**28**	52
Cash and cash equivalents	**509**	868
Total restricted assets	**$3,374**	$3,778

4 Derivative financial instruments

The Group is exposed to certain risks relating to its ongoing 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 option and swap 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 default option and swap contracts are entered into in order to manage the credit risk associated with holding these securities.

Gains and losses on credit default options 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 and hedge funds. 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.

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 30 June 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 derivative contracts	**$3**	**$(2)**	**$1**	$12	$-	$12
Credit default derivative contracts	**-**	**(3)**	**(3)**	1	(1)	-
Foreign exchange contracts	**-**	**-**	**-**	1	-	1
Total derivatives	**$3**	**$(5)**	**$(2)**	$14	$(1)	$13

Cash collateral related to derivatives not offset in the balance sheet was $21 million at 30 June 2014 (2013: $4 million).

The notional values of open derivatives at 30 June 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	**1,479**	350
Credit default swap option contracts	**1,000**	900
Credit default swap contracts	**33**	23
Equity market option contracts	**-**	2
Foreign exchange contracts	**14**	143

The net gains/(losses) on derivatives for the period ended at 30 June 2014 and 2013 are as follows:

(US dollars in millions)	**2014**	2013
Interest rate derivative contracts	**$(32)**	$7
Credit default derivative contracts	**(2)**	(7)
Equity market derivative contracts	**4**	(1)
Foreign exchange contracts	**1**	(1)
Net losses on derivatives	**$(29)**	$(2)

The derivatives contracts held by the Group at 30 June 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 protections for the credit risk in the portfolio. Equity market derivative contracts were utilised both for tail risk protection and efficient portfolio management.

5 Fair value measurement

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

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

Assets utilising Level 1 inputs comprise 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 (‘CDOs’); 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.

Assets and liabilities measured at fair value on a recurring basis
The table below shows the values at 30 June 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 30 June 2014**	**Level 1 inputs**	**Level 2 inputs**	**Level 3 inputs**
Assets				
US government and agencies	**$1,241**	**$809**	**$432**	**$-**
Non-US governments	**1,699**	**-**	**1,699**	**-**
Corporate securities	**2,390**	**-**	**2,381**	**9**
ABS	**838**	**-**	**838**	**-**
RMBS	**677**	**-**	**664**	**13**
CMBS	**3**	**-**	**3**	**-**
Interest rate derivative contracts	**1**	**-**	**1**	**-**
Credit default derivative contracts	**(3)**	**-**	**(3)**	**-**
Total fixed maturities	**6,846**	**809**	**6,015**	**22**
Short-term investments	**202**	**-**	**202**	**-**
Other invested assets at fair value	**560**	**211**	**165**	**184**
Foreign exchange derivative contracts	**-**	**-**	**-**	**-**
Total assets at fair value	**$7,608**	**$1,020**	**$6,382**	**$206**

The table below shows the values at 30 June 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 30 June 2013	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
US government and agencies	$703	$310	$393	$-
Non-US governments	1,430	-	1,430	-
Corporate securities	1,828	-	1,820	8
ABS	717	-	684	33
RMBS	717	-	660	57
CMBS	88	-	78	10
Interest rate derivative contracts	12	-	12	-
Credit default derivative contracts	-	-	-	-
Total fixed maturities	5,495	310	5,077	108
Short-term investments	102	5	97	-
Other invested assets	508	179	148	181
Foreign exchange derivative contracts	1	-	1	-
Total assets at fair value	$6,106	$494	$5,323	$289

The changes in the period 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	**10**	**-**	**-**	**1**	**2**	**7**
Acquisitions	**43**	**-**	**-**	**-**	**-**	**43**
Disposals	**(118)**	**(1)**	**(28)**	**(37)**	**(14)**	**(38)**
Balance 30 June 2014	**$206**	**$9**	**$-**	**$13**	**$-**	**$184**
Amount of gains relating to balances still held at period end	**$7**	**$-**	**$-**	**$-**	**$-**	**$7**

There were no transfers to or from Level 3 during the period.

The changes in the period ended 30 June 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	20	6	-	1	1	12
Acquisitions	99	9	13	19	4	54
Disposals	(43)	(13)	(4)	(4)	(1)	(21)
Transfers out of Level 3	(20)	(10)	-	-	-	(10)
Balance 30 June 2013	$289	$8	$33	$57	$10	$181
Amount of gains/(losses) relating to balances still held at period end	$9	$(1)	$-	$-	$-	$10

Corporate assets transferred out of Level 3 were the result of a credit upgrade during the year. Other invested assets transferred out of Level 3 were the result of an exchange listing of a previous private equity holding.

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 corporate securities, ABS, RMBS and CMBS, 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 ABS, RMBS and CMBS, 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.

The Group's 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 30 June 2014, the fair value of the subordinated debt was $87 million, which compared to a carrying value of $93 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.

6 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 30 June 2014 and 2013.

The reconciliation of unpaid losses and loss expenses for the six months ended 30 June 2014 and 2013 is as follows:

(US dollars in millions)	**2014**	2013
Gross unpaid losses and loss expenses, beginning of period	**$6,709**	$6,686
Reinsurance recoverable on unpaid losses and loss expenses	**(1,336)**	(1,400)
Net unpaid losses and loss expenses, beginning of period	**5,373**	5,286
Net incurred losses and loss expenses for claims related to:		
Current period	**1,080**	1,101
Prior periods	**(49)**	(56)
Total net incurred losses and loss expenses	**1,031**	1,045
Net paid losses and loss expenses for claims related to:		
Current period	**(242)**	(205)
Prior periods	**(711)**	(789)
Total net paid losses and loss expenses	**(953)**	(994)
Foreign exchange and other	**20**	(78)
Net unpaid losses and loss expenses, end of period	**5,471**	5,259
Reinsurance recoverable on unpaid losses and loss expenses	**1,374**	1,425
Gross unpaid losses and loss expenses, end of period	**$6,845**	$6,684

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 $49 million (2013: $56 million). The decrease in reserves relating to prior years was due to better than expected claims development and reductions in uncertainty surrounding the quantifications of the net cost claim events.

7 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	**$1,893**	**$1,704**	**$882**	$1,761	$1,571	$763
Assumed	**1,767**	**986**	**425**	1,538	912	513
Ceded	**(1,053)**	**(652)**	**(276)**	(862)	(570)	(231)
Net premiums	**$2,607**	**$2,038**	**$1,031**	$2,437	$1,913	$1,045

The Group's reinsurance recoverable on unpaid and paid losses as at 30 June 2014 and 2013 is as follows:

(US dollars in millions)	**2014**	2013
Gross reinsurance recoverable	**$1,588**	$1,561
Provision for uncollectible balances	**(31)**	(29)
Net reinsurance recoverable	**$1,557**	$1,532

8 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.

The Finance Bill 2013 introduced a reduction to the UK corporation tax rate from 23 per cent to 21 per cent from 1 April 2014 and to 20 per cent from 1 April 2015. The impact of these rate reductions was fully reflected in deferred tax at 31 December 2013 and therefore at 30 June 2014.

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

United States
The Group 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.

The income tax expense for the six months ended 30 June 2014 and 2013 is as follows:

(US dollars in millions)	**2014**	2013
Current tax expense	**$3**	$3
Deferred tax expense	**18**	2
Change in uncertain tax positions	**2**	-
Income tax expense	**$23**	$5

The Group records income taxes for the period based on the estimated effective annual rates for the years ending 31 December 2014 and 2013.

Unrecognised tax benefits
As at 30 June 2014, the Group's liability amount of uncertain tax benefits was $9 million (2013: $13 million). During the period $8 million of uncertain tax liability became payable and was reclassified to deferred tax. All unrecognised tax benefits would affect the effective tax rate if recognised.

9 Stockholders' equity

The following sets out the number and par value of shares authorised, issued and outstanding as at 30 June 2014 and 2013:

	2014	2013
Common stock, par value $0.01		
Authorised	**500,000,000**	500,000,000
Issued	**362,089,787**	361,886,898
Stock held by Employee Benefit Trust	**(2,760,139)**	(5,064,663)
Outstanding	**359,329,648**	356,822,235
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 and warrants	**36,250**	62,894
Balance 30 June	**362,089,787**	361,886,898

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 2,300,000 of the Group's shares at an average price of $9.10 (£5.52) per unit. The total amount paid for treasury stock of $21 million is shown as a deduction to stockholders' equity. The cumulative cost of shares held by the EBT of $30 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).

Non-controlling preferred stock dividend

On 19 January 2014 Catlin Bermuda paid a dividend of $22 million to the stockholders of the non-cumulative perpetual non-controlling preferred stock.

10 Employee stock compensation schemes

The Group has a number of employee stock compensation schemes 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 cost of all plans expensed in the six months ended 30 June 2014 was $31 million (2013: $12 million).

From 2014, awards are made under the Performance Share Plan (‘PSP’), adopted in 2013. This replaces the previous PSP, adopted in 2004, under which awards were made in 2013 and prior years. In February 2014, Standard Awards comprising a total of 3,896,040 options with $nil exercise price and 1,482,827 non-vested shares (total of 5,378,867 securities) were awarded to Group employees under the PSP. 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 to Group executive management. Up to half of these securities will vest in 2017 and up to half will vest in 2018, subject to certain market-based conditions.

In February 2014 a total of 2,168,384 options with $nil exercise price and 869,842 non-vested shares (total of 3,038,226 securities) were awarded to Group employees under the Group’s Incentive Share Plan (‘ISP’). Half of the securities will vest in 2017 and half will vest in 2018, subject to continued service.

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.

In addition, 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.

11 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 period.

Diluted earnings per share are 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 periods presented:

(i) PSP;
(ii) ISP;
(iii) Deferred Bonus Shares;
(iv) All-Employee Share Plans.

Income to common stockholders is arrived at after deducting non-controlling preferred stock dividends of $22 million (2013: $22 million).

Reconciliations of the number of shares used in the calculations as at 30 June 2014 and 2013 are set out below.

	2014	2013
Weighted average number of shares	**358,300,243**	353,515,294
Dilution effect of stock options and non-vested shares	**31,021,671**	11,707,052
Weighted average number of shares on a diluted basis	**389,321,914**	365,222,346
Earnings per common share		
Basic	**$0.76**	$0.34
Diluted	**$0.70**	$0.32

12 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.

Letters of credit
The Group arranges letter of credit facilities to support its reinsurance business and for general corporate purposes.

As at 30 June 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 30 June 2014, $147 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 30 June 2014, $168 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 30 June 2014, $19 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 $375m. As at 30 June 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 ($47 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 30 June 2014, Australian $49 million ($46 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 30 June 2014, $132 million of letters of credit were issued under this facility.
- A facility managed by Lloyd's, acting for the Syndicates. As at 30 June 2014, $8 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.

13 Subsequent events

Proposed dividend

On 7 August 2014 the Board approved a proposed interim dividend of 10.5 pence per share (17.7 cents), payable on 22 September 2014 to stockholders of record at the close of business on 22 August 2014. The 2014 interim dividend represents a 5 per cent increase over the 2013 interim dividend of 10 pence per share (15.5 cents). The interim 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 July 2014.

Management has evaluated subsequent events until 7 August 2014, the date of issuance of the financial statements.

Independent Review Report to Catlin Group Limited

Report on the Consolidated Interim Financial Statements
Our conclusion
We have reviewed the Consolidated Interim Financial Statements, defined below, in the Half-Yearly Financial Report of Catlin Group Limited for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the Consolidated Interim Financial Statements are not prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed
The consolidated interim financial statements, which are prepared by Catlin Group Limited, comprise:

- the Consolidated Balance Sheets as at 30 June 2014;
- the Consolidated Income Statements and Statements of Comprehensive Income for the period then ended;
- the Consolidated Statements of Changes in Stockholders' Equity for the period then ended; and
- The Consolidated Statements of Cash Flows for the period then ended;
- the explanatory notes to the Consolidated Interim Financial Statements.

As disclosed in Note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group are accounting principles generally accepted in the United States of America.

The consolidated interim financial statements included in the Half-Yearly Financial Report have been prepared in accordance with accounting principles generally accepted in the United States of America and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of consolidated financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Consolidated Interim Financial Statements.

Responsibilities for the consolidated interim financial statements and the review
Our responsibilities and those of the directors
The Half-Yearly Financial Report, including the Consolidated Interim Financial Statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Independent Review Report to Catlin Group Limited

Our responsibility is to express to the company a conclusion on the Consolidated Interim Financial Statements in the Half-Yearly Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers Ltd.
Chartered Professional Accountants
7 August 2014
Bermuda

Statement of Responsibility

The Directors confirm that to the best of our knowledge:

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

By order of the Board.

Stephen Catlin
Chief Executive

Benjamin Meuli
Chief Financial Officer

7 August 2014