CATCo Reinsurance Opportunities Fund Ltd. ("the Company")

Portfolio Update

To: SFM, London Stock Exchange and Bermuda Stock Exchange

Date: 9 January 2013

Key Points

- Hurricane Sandy – no change to retrocessional reinsurance loss reserve previously announced on 10 December 2012;
- Costa Concordia – a retrocessional reinsurance loss reserve representing 100% of the remaining 2012 Offshore Marine Exposure was established at 31 December 2012;
- Side Pocket Investments initiated at 1 January 2013 for Hurricane Sandy and Costa Concordia exposures;
- CATCo Reinsurance Fund (the "Master Fund") and other segregated accounts managed by the Investment Managers received significant additional investment of c.$350 million in its participating shares during Q412 from private investors.
- 98% of all 2013 available capital has been deployed with multiple reinsurance counterparties;
- The Master Fund's reinsurance investments for 2013 are all performing in line with expectation, and in excess of the Company's target returns of LIBOR +12-15% per annum; and
- As of 1 January 2013, the Master Fund has deployed in excess of $2 billion of collateralised retrocession reinsurance capacity.

Throughout 2012, there were two significant events that impacted the Company's 2012 investment portfolio – Hurricane Sandy, expected to be the second costliest Atlantic hurricane on record, impacting the Company's US Hurricane risk pillar exposure; and the cruise ship Costa Concordia, which ran aground off the Italian coast resulting in the costliest marine disaster, impacting the Company's Offshore Marine risk pillar exposure. The Company's Ordinary Shareholders are indirectly exposed to potential losses arising from both of these events that occurred in 2012. All other 2012 investment exposures have been released by our reinsurance counterparties with the exception of the twelve month reinsurance transactions issued mid-year during 2012 and representing less than 4% of the Company's 2013 reinsurance exposures.

Hurricane Sandy ("Sandy") Update

On 31 October and 10 December 2012, the Board of Directors released two separate announcements concerning the potential impact from Sandy. The Investment Managers had modeled the projected loss distribution for Sandy across CATCo-Re Ltd's (the "Reinsurance

Company") 2012 portfolio based upon PCS's estimated industry loss as well as varying average expected industry insured losses suggested by Eqecat, AIR Worldwide and RMS. The Board of Directors of the Reinsurance Company and the Master Fund have taken a cautious approach to estimating the exposure to Sandy and a retrocessional reinsurance loss reserve provision was included in the Net Asset Value calculation at 30 November 2012 based on a best estimate of the insured industry loss of $20 billion as at that time. This is a retrocessional reinsurance loss reserve, and not a crystalised loss, as the Reinsurer's protections are based on the reinsurance counterparties actual paid claims. The Board of Directors of the Reinsurance Company, the Master Fund or the Investment Managers have no reason, at this time, to change the retrocessional reinsurance loss reserve.

PCS will release a re-survey in January 2013 following their initial estimate and will update the original loss estimate at that time with new data gained from affected insurers. It is the Directors intention to update the Company's Shareholders with any additional information when this information is released.

Costa Concordia Update

On 21 December 2012, The Insurance Insider reported that, the International Group (IG)'s insured loss estimate for the protection and indemnity portion of the Costa Concordia insured loss had increased to USD744 million. This brings the total insured loss estimate, included the hull value, to roughly USD1.25 billion. The Reinsurance Company and Master Fund's investment portfolio exposure to this marine event is triggered at industry losses equal to or greater than USD1.25 billion.

The increased loss estimate is largely due to the estimated increase in clean up costs. The wreck removal plan had an original timeline that assumed the parbuckling and refloating would be completed in January of 2013, but is now projected to be completed three to four months later, at significant additional cost.

The Company's maximum 2012 exposure to Offshore Marine risk was 4% of the 'expected' 2012 gross returns, assuming a total loss to this cover from this event. In November 2012, the Investment Managers had reached agreement to fully and finally commute 100% of the exposure with respect to one of two reinsurance counterparties (representing circa 40% of the total Offshore Marine portfolio exposure), at a cost which represents circa 1.5% of the 2012 gross return. This commutation was a settlement agreement reached between the reinsured counterparty and the Reinsurance Company by which the reinsurance obligation was terminated by an agreement by the reinsurer to pay funds at present value that are not yet due under the reinsurance agreement.

As a result of the IG's increased loss estimate, the Master Fund's Board of Directors have decided to include a retrocessional reinsurance loss reserve provision in the Net Asset Value calculation at 31 December 2012 representing 100% of the remaining Costa Concordia exposure.

2012 Side Pocket Investments

The Master Fund and other segregated accounts managed by the Investment Managers have received new investment of c.$350 for deployment at 1 January 2013., It is the intention of the Board of Directors to extract the potential exposure to the recent loss events, Sandy and Costa Concordia, and initiate Side Pocket Investments..

2013 Investment Portfolio Deployment

At the date of this announcement, the Investment Manager on behalf of the Reinsurance Company have agreed terms on new reinsurance transactions with multiple reinsurance counterparties that have utilized c. 98% of the available capital received from existing and new investment in the Company, the Master Fund and other separately managed Investment Funds.

The Company and Master Fund's reinsurance portfolio contains a significantly diverse set of global risk pillars. The Master Fund's diversified portfolio, including reinsurance protections, ensures that exposure to a single loss event, no matter the magnitude of the event, results in positive net portfolio returns for investors in the current financial year with the exception of small negative potential net returns due to a worst case single US earthquake or hurricane event as detailed below:

Scenario Analysis

	Worst Case Insured Single Loss Event	Indicative Annualised Net Return*
	No Losses	**27%**
1	Aviation	27%
2	New Zealand Wind	26%
3	Miscellaneous	26%
4	Offshore Elemental Marine	26%
5	Terrorism	25%
6	Central America Wind	24%
7	South Africa Quake	24%
8	US Wildfire	24%
9	South East Asia Quake	22%
10	Canada Wind	21%
11	Israel Quake	21%
12	Philippines Wind	21%
13	India Quake	21%
14	South Korea Wind	20%
15	Taiwan Wind	20%
16	Mexico Wind	20%
17	Indonesia Quake	19%
18	Guam Wind	19%
19	Guam Quake	19%
20	Taiwan Quake	17%
21	China Wind/Flood	17%
22	Offshore Non-elemental Energy	15%
23	Hong Kong Wind	13%
24	Offshore Non-elemental Marine	13%
25	Europe Flood	12%

26	Central America Quake	11%
27	US/Canada Winterstorm	10%
28	Caribbean Wind	10%
29	China Quake	9%
30	US Severe Convective Storms	9%
31	Japan Wind	5%
32	Mexico Quake	5%
33	Caribbean Quake	4%
34	Europe Quake	4%
35	New Zealand Quake	4%
36	Europe Wind	3%
37	Australia Wind	3%
38	South America Quake	2%
39	Australia Quake	2%
40	Japan Quake	1%
41	US/Canada Quake	-1%
42	US Wind	-2%

**This information is based on research undertaken by CATCo. CATCo IM may change its opinions and views without prior notice. It does not constitute investment advice nor is it an invitation to invest in this company. This is purely a scenario analysis and not a forecast.*

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