



OMEGA

Syndicate Annual Accounts

FOR THE YEAR ENDED 31 DECEMBER 2009

SYNDICATE 958

OMEGA UNDERWRITING AGENTS

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DIRECTORS AND ADMINISTRATION

MANAGING AGENT

Omega Underwriting Agents Limited

DIRECTORS

Mr. A. J. Adie

Mr. M. I. Daly

Mr. W. M. Fiederowicz (non-executive)

Mr. I. W. Mercer (non-executive)

Mr. R. B. Morgan (non-executive chairman)

(resigned 3 September 2009)

Mr. J. F. Powell

*(non-executive; non-executive chairman
from 3 September 2009)*

Mr. J. B. Raishbrook

Mr. J. D. Robinson

(resigned 3 September 2009)

Ms. D. Vanous

(appointed 3 September 2009)

COMPANY SECRETARY

Mr. A. D. Smith

MANAGING AGENT'S REGISTERED OFFICE

5th Floor

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6 London Street

London

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MANAGING AGENT'S REGISTERED NUMBER

3437356

SYNDICATE

ACTIVE UNDERWRITER

Ms. D. Vanous

(appointed 3 September 2009)

BANKERS

Barclays Bank plc

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London

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INVESTMENT MANAGERS

Amundi (UK) Limited

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REGISTERED AUDITORS

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SOLICITORS

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The directors of the managing agent present their report for the year ended 31 December 2009. This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("Lloyd's Regulations 2008").

Separate underwriting year accounts for the closed 2007 account will be made available to the syndicate members.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

It is unfortunate to have to open this year's report by referring to the unrest at Omega Group Board level, but given the press coverage it has attracted, it is inevitable that stakeholders may have concerns regarding its effect on activities at Omega Underwriting Agents Limited (OUAL).

The first half of 2009 saw some notable successes at Group level. This started with the successful completion of the capital raise of £130m in late 2008 which, amongst other things, gave rise to a successful capacity offer on the Syndicate, resulting in the Group securing additional capacity on Syndicate 958 going into the 2010 year. In addition, in July 2009 the Group successfully moved to the London Stock Exchange main list. These developments have all been part of a general strategy to enhance the ability of the Group, including the Syndicate, to position itself so as to be able to readily respond to business opportunities as they arise.

However, as will have been seen in the press, during the second half of 2009, disagreements arose between the Group Board and major shareholders concerning certain decisions which the Group Board regarded as crucial to the future direction and strategy of the Group. This has culminated in the calling of a Special General Meeting at which it is likely that the make up of the Group Board will change significantly. In addition, the uncertainty that this has given rise to regarding the Omega Group Board's composition, operational management and future strategy has resulted in AM Best placing the Group's rating under review with negative implications. This does not include the Syndicate's rating which remains

unchanged. The conclusions of the SGM should bring clarity and stability to the position, such that at the very least the AM Best position can be speedily and satisfactorily resolved.

In recognition of its fiduciary duties, particularly to non-aligned capacity on the Syndicate, the OUAL Board has worked hard during this period to seek to ensure that this "background noise" does not detrimentally affect progress or performance. To this end, considerable progress has been made on various levels. Moreover, it is pleasing to be able to report that it has not, to date, in any way affected the showing of business to the Syndicate. Going forward, the OUAL Board will continue to operate in what it believes to be in the collective best interests of the Syndicate's capital providers, irrespective of activity at Group level.

Focussing specifically on the Syndicate's activities, 2009 has been a time of considerable change and transition for the Syndicate. It was disclosed in the 2008 year end accounts that John Robinson had decided to step down as the Active Underwriter of Syndicate 958 with effect from the 2010 year of account. In response, the Board was able to confirm that Daria Vanous, who has worked at Omega since 2003 and was John Robinson's favoured candidate for the role, had accepted the Board's offer to take over the position for the 2010 year. The Board is pleased to be able to report that Daria's transition into her new role has gone smoothly and has been well received by the underwriting team, brokers and clients alike. The Board would also like, at the same time, to take the opportunity to thank John for his invaluable contribution to building the Syndicate up from scratch and establishing, in conjunction with the underwriting team, a track record of unbroken profit, which is unparalleled within the Lloyd's market.

As was emphasised in last year's report and accounts, Daria shares a common underwriting philosophy with John Robinson. This means that, whilst she is seeking to make certain changes in terms of style and approach, the underlying underwriting philosophy that has supported the Syndicate's track record will not be compromised.

We also wish to record OUAL's gratitude to Roger Morgan, who served as Non-Executive Chairman of OUAL for more than 10 years, and who resigned from the Board in September 2009. Under Roger's stewardship the Syndicate has successfully grown from a £50m Syndicate in 2000 to £250m in 2009.

John Powell has taken over as Non-Executive Chairman. John has served as a non-executive director on the OUAL Board since May 2005, having previously been the Managing Director of Axiom. In the short period that John has been Chairman, he has very effectively sought to ensure that plans are put in place to respond adequately to the challenges that are faced by the business in the current commercial and regulatory environment. In addition, John has actively striven to ensure that all stakeholders' potential concerns, given the unrest at Group Board level, are responded to.

2007 YEAR

The 2007 year has closed at a profit of £44.9m or 16.4% of capacity (£58.3m or 23.4% of capacity for 2006). The 2008 year end accounts highlighted the volatility of the 2007 year, given the ongoing potential for sharp fluctuations in exchange rates, particularly the USD (the 2008 calendar year having closed at USD 1.44) and the continuing uncertainty in the investment markets. In response, the Board took action during the course of 2009 to protect the Syndicate's finances against such forces and thus, we are pleased to be able to report that the profit recorded falls within the forecast range provided of 12.5% to 17.5% of capacity.

The make-up of the result is a pure year profit of £37.8m and a release from the 2006 and prior years of £7.1m.

The 2007 pure year has not performed as well as 2006 at its closure since:

- although this was largely a catastrophe free year, some 2007 business experienced losses as a result of Hurricanes Ike and Gustav;
- the marine excess of loss account performed poorly, primarily due to the high number of hull losses in the 2007 year. The Syndicate no longer underwrites this account; and
- a high frequency of loss occurred on the satellite account. This is principally a "launch" exposed account and is, therefore, highly volatile. The 2008 and 2009 years for this account are currently running profitably, with low claims frequency.

On the prior years, the contingency reserve that was established upon the closure of the 2005 year in response to concerns regarding the legal and political consequences of Hurricane Katrina deserves mention. As discussed in the 2008 year end accounts, the contingency was reduced from \$25m to \$15m in light of legal commentary that the position in Mississippi and Louisiana was becoming more stable. This theme continues, and as a consequence, the contingency reserve has been further reduced at 31 December 2009 to \$8m. This recognises that whilst outstanding litigation continues to be resolved in insurers' favour, thus justifying a reduction in the contingency amount, there is still litigation outstanding which presents the possibility of adverse rulings and damaging precedents being set which therefore necessitate a reserve to be maintained.

2008 YEAR

As previously reported, this year has been affected significantly by the Syndicate's exposure to Hurricanes Ike and Gustav. As at 31 December 2009, the ultimate net loss for both storms was forecast to be USD 100.40m (31.12.08 - USD 81.50m) before the effects of the whole account stop loss.

The year has also experienced attritional deterioration in certain lines, particularly the motor excess of loss and liability classes and the need to reduce premium income estimates for certain classes. For these reasons, during the course of 2009 the Syndicate narrowed its forecast result for the year from 0% to 10% to 0% to 5%. The overall position on the year is, of course, contained by the whole account stop loss that the syndicate has in place.

2009 YEAR

The Syndicate went into the 2009 Lloyd's business planning process with the Board expressing concerns regarding the inability, at that point in time, to predict the full effects on rates for its core lines of business as a result of the financial crisis, the effects of which were still emerging at that time, and the effects of losses as a result of Hurricanes Ike and Gustav.

For these reasons, the Syndicate filed a business plan that was agreed by Lloyd's with a total estimated income of £200.5m (£243.0m - 2008), which was primarily based on concerns that prevailed before Hurricanes Ike and Gustav and the onset of the financial crisis, that rates would come under pressure in 2009. There was also concern that if energy rates, terms and conditions did not respond adequately to the losses already anticipated to be incurred as a result of Ike and Gustav, the Syndicate would need to downsize its energy writings significantly. Nevertheless, in response to the uncertainty and the possibility that income estimates would need to be increased due to more favourable rating conditions than anticipated, capacity was maintained at £250.0m.

As the year progressed, it became apparent that the Syndicate was right to maintain capacity at £250.0m. Underwriting conditions did not deteriorate to the levels feared and thus in July Lloyd's agreed a revised plan for the Syndicate of £235.5m, with increases in estimated income coming primarily on the property catastrophe treaty and energy lines of business. Both of these classes benefited from the effects of rate stabilisation and correction flowing from the catastrophe events in 2008. The property treaty account saw some excellent opportunities on retrocessional business and the Gulf of Mexico exposed offshore energy account saw significant rate correction. In the case of the latter, the Syndicate was able to reduce its Gulf of Mexico wind exposed aggregate from circa. USD200m for 2008 to circa. USD70m for 2009, but retain the same level of income.

The 2009 year has been a benign year from the viewpoint of catastrophic events and, therefore, the Syndicate's catastrophe exposed lines of business are running profitably. The Syndicate is also pleased to be able to report that the underlying attritional

claims exposure on the account is developing positively. When forecasting the likely outturn of the year, however, prudence dictates that these satisfactory elements be balanced against the relative immaturity of the year, and also the volatility of the Syndicate's unexpired catastrophe exposures. Should there be a significant catastrophe event during the first half of 2010, this could have loss repercussions for 2009 business running off during the course of 2010. For these reasons, the Syndicate has published a forecast profit range for the year, at this point, of 5% to 15%.

THE FUTURE

2010 UNDERWRITING

As is discussed earlier in this report, Daria Vanous has taken over as the Active Underwriter for the Syndicate for the 2010 and future underwriting years.

The capacity for the 2010 year has been increased, via a pre-emption, to £280.0m (2009 - £250.0m). However, as was discussed in the documentation provided to members in support of this pre-emption, since the Syndicate's income is predominantly USD based, the increase actually represents a real decrease in income in dollar terms.

For 2009, the Lloyd's prescribed rate of exchange for business planning purposes was USD 1.99, whereas for 2010 it is USD 1.50. If the Syndicate were to renew its 2009 account on a like for like basis going into 2010 using the USD rate of exchange of 1.50, then income would be circa £300.0m, whereas the Syndicate has an agreed plan of £263.0m. This represents a real reduction of circa 13%.

This real reduction is in response to concerns that rates for catastrophe treaty and per risk excess of loss business will come under pressure in response to the benign catastrophe season of 2009. Similarly, whilst offshore energy business saw significant rate correction in 2009, additional capacity attracted by these rates and the low loss experience in 2009 could lead to rate reductions greater than the Syndicate deems reasonable in order to maintain profit margins.

The 1 January 2010 renewals have borne out the concerns expressed above. Rates on the retrocessional opportunities that the Syndicate underwrote in 2009 have come under pressure and as a consequence, this business has not been renewed. Overall, US treaty business that has run clean in 2009 is seeing reductions of 5% to 10% and remains flat for accounts that have experienced loss activity in 2009. The offshore energy book does not renew until 1 March through to 1 July so it is a little early to comment on these figures.

Post the January renewals, the Syndicate's income is within business plan targets, but there remains concern as we move through 2010 that rates will come under further pressure. If this is the case, then the position will be reviewed again, and corrective action taken accordingly.

2010 REINSURANCE ARRANGEMENTS

From the perspective of outwards reinsurance, as has been disclosed in previous report and accounts, ongoing concern has been expressed regarding the commercial viability of purchasing conventional reinsurance protection. As a consequence, the reinsurance strategy has been based on specific reinsurances at a class of business level, the 20% whole account quota share with Omega Specialty Insurance Co. Ltd. (OSIL), the whole account stop loss, and the purchase of ILWs to seek to smooth the volatility in the account.

Daria Vanous has reviewed the position and has expressed concerns to the Board regarding the basis risk presented by ILW coverages. As a result, the Board have supported her proposal to purchase more extensive general excess of loss reinsurance to protect the property catastrophe treaty and per risk XL accounts. The ability to do so has been enhanced by the purchase of catastrophe modelling software. Increasingly, outwards reinsurance capacity is not available from credible markets, or certainly not at a commercially viable price, in the absence of being able to provide Syndicate data that has been modelled using proprietary catastrophe modelling software. The licensing by the Group of the AIR catastrophe modelling product in late December 2009 allows the Syndicate to respond to reinsurers requirements in this regard and thereby gives access to a wider market of reinsurers.

In addition, the 20% whole account quota share with OSIL has been renewed on the same basis as 2009 (no event or occurrence limits) and negotiations are ongoing to renew the whole account stop loss.

CATASTROPHE MODELLING

As is referred to above, the AIR product was licensed in December 2009, and will be rolled out across all relevant lines of business during the course of 2010. This is a very significant step for the Syndicate and one that has not been undertaken lightly. The Board is well aware of the caution with which one needs to treat the output from such products. Previous catastrophic events have proved that science cannot accurately predict the potential effects of the forces of nature. As a consequence, Daria Vanous is adamant in her resolve to ensure that the catastrophe modelling software should only be used in the underwriting context as a necessary addition to one of the many tools used to assist in the underwriting process - the Syndicate will not allow such instruments to operate in isolation and dictate specific underwriting decisions or decisions regarding underwriting and/or capital strategy.

SOLVENCY II

The other major development which will inevitably give rise to significant additional work and expenditure going forward is the move towards Solvency II equivalence. The provisions of the Solvency II legislation, which will affect all insurers based in the EU, have been widely publicised and will come into effect for the 2013 year of account. The potential effects of this legislation upon capital provision are significant and unless carefully assessed and managed i.e. could be prejudicial to insurers' competitive positions. As a consequence, Lloyd's has required that all Syndicates prepare for the implementation of the legislation well in advance and seek to achieve equivalence with it in order to allow Syndicates to assess their own capital requirement. This will be done by reference to the principal risks that the business believes it is exposed to - this is commonly known as gaining "model approval" which has to be forthcoming with the agreement of the FSA and is a position actively being sought by the majority of UK insurers.

The Board has recognised that to achieve the foregoing within the timescales prescribed is going to require significant effort and commitment. Nevertheless, it should be noted that basically Solvency II advocates, a commonsense approach to running an insurance business, and offers flexibility in how to develop responses to the requirements in a manner that best fits the business' culture.

There is further commentary on the major risks facing the Syndicate on page 7 of this report. However, the principal actions taken thus far in the move to gain Solvency II "model approval" are:

- the Board has undertaken a review of its governance structure and has:
 - identified the need to appoint two new non-executive directors (NEDs), one with a finance and one with an underwriting background, to complement and enhance the level of independent challenge at Board level;
 - formed a Risk Committee to oversee the implementation of Solvency II and specifically to deal with risk management related matters;
 - enhanced the terms of reference of the Audit Committee (of which only the NEDs are members) to take reports from the internal auditor and thereby have responsibility to ensure that the risk management framework is working in accordance with the business' defined risk appetite;
 - enhanced the role of the Reserving Committee in its oversight of the reserving process;
 - formed a separate Investment Committee to consider and monitor market risk emanating from investment products; and
 - formed a Reinsurance Committee to manage reinsurer counterparty risk.
- the recruitment of internal actuarial resource in order to:
 - assist in the development and maintenance of a capital model that responds to Solvency II requirements and the needs of the business going forward;

- give greater transparency to and assist in the monitoring of the pricing of business; and
- respond to the changes necessary under Solvency II to reserve setting and analysis;

- the purchase of ReMetrica software to act as the platform upon which the Group/Syndicate will develop its capital model;
- the purchase of AIR catastrophe modelling software - in addition to the background to the purchase of AIR explained above, it is also necessary, in light of the materiality of the Syndicate's catastrophe exposures, to be able to demonstrate for capital modelling purposes under Solvency II that independently benchmarked data at specific return periods has been used. This can be obtained from the likes of AIR and other proprietary catastrophe modelling software;
- the establishment of a separately defined internal audit function which will seek to ensure that systems and controls are operating in line with the Syndicate's defined risk appetite; and
- a separate risk management function is to be established which will seek to further develop and enhance the risk management framework.

RESULTS

The result for calendar year 2009 is a profit of £30.7m (2008 - £41.2m). Profits will continue to be distributed by reference to the results of individual underwriting years.

FINANCIAL PERFORMANCE

The Syndicate's key financial performance indicators during the year were as follows:

INVESTMENT PERFORMANCE	2009 £000	2008 £000	CHANGE
Gross written premiums	324,914	328,521	-1%
Profit for the financial year	30,712	41,202	-26%
Combined ratio	90%	89%	

Note: Gross written premiums include brokerage and commission. The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums

The combined ratio has deteriorated marginally from 2008, despite 2009 having been a benign catastrophe year. This is primarily due to attritional deterioration on the 2008 year and deterioration on the gross and, therefore, net loss estimates for Hurricanes Ike and Gustav combined with the need to reduce income estimates on certain lines of business.

INVESTMENT PERFORMANCE	2009 £000	2008 £000	CHANGE
Investment return	9,303	17,201	-46%

As was disclosed in last year's accounts, the Board took the decision, effective 1 November 2008, to appoint Credit Agricole (now formally known as Amundi) to manage the Syndicate's investment portfolio. This decision was taken primarily because the Board was of the opinion that AllianceBernstein's (its former appointed investment manager) view on introducing credit risk into the portfolio was not in tune with the Board's view on investment risk appetite.

The Board is pleased to be able to report that the first year of working with Amundi has been in accordance with expectations. As is expressed elsewhere in this report, the Board remains risk averse in its investment dealing, believing that the investment strategy should not be structured such that it potentially prejudices underwriting profit. As a consequence, Amundi were given the mandate to seek to maximise returns but at the same time minimise risk by investing in high quality fixed income securities, with a limited duration. The Board was aware that this mandate, in the current environment, would not achieve returns commensurate with those seen in 2008 calendar year, but it would protect the Syndicate's bottom line from the volatility that continues to exist in the markets due to the international economic crisis. It is pleasing to be able to report that despite these restraints, Amundi have exceeded the benchmark returns that they have been set, and as can be seen from the table below, which shows the portfolio make up. Corporate credit risk, which is where volatility is prevalent currently, has been kept under control.

	2009 £000	2009 %	2008 £000	2008 %
Government/ Government Guaranteed Debt	164,158	61.1%	209,805	70.3%
Government/ US Agency	42,544	15.8%	32,976	11.1%
Corporate Debt - AAA	23,845	8.9%	24,342	8.2%
Corporate Debt - AA	22,348	8.3%	22,155	7.4%
Corporate Debt - A	14,644	5.4%	8,670	2.9%
Corporate Debt - BBB	1,456	0.5%	402	0.1%
	<u>268,996</u>	<u>100.0%</u>	<u>298,350</u>	<u>100.0%</u>

RISK MANAGEMENT STATEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

As can be seen above, much work is already planned and/or underway as part of our progress towards Solvency II expectations. OUAL's updated governance structure ensures that there is a clear definition of responsibility for the management and oversight of the broad range of risks which OUAL as a modern insurance business faces.

There are, in the Board's view, seven principal categories of risks and therefore uncertainties which are discussed in more detail below. The controls that the Syndicate has in place to mitigate against these risks are also explained. As is discussed under the Solvency II heading above, the OUAL Board has introduced an internal audit function and a Head of Risk Management, and it will be their joint responsibility going forward to ensure that these controls are working in accordance with the Syndicate's defined risk appetite.

INSURANCE RISK

UNDERWRITING

The Syndicate accepts underwriting risk across a range of classes of business with the bias of the portfolio being towards small short-tail direct and

reinsurance property business and a medium sized but growing liability account which concentrates primarily on small commercial “trip and fall” and artisans liability.

In underwriting insurance or reinsurance policies the Syndicate’s underwriters use their skill, knowledge and data on past loss experience to determine the likely claims cost and therefore the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit in line with the agreed business plan. However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premium being calculated and charged or result from an unexpected or unprecedented high level of claims.

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed by the Board which is used to set the amount of premium income, and exposure, to be written in total and for each class of business. Progress against this plan is monitored by the Board during the year.

In seeking to deliver the plan, the Syndicate underwriters are subject to line guides which determine the maximum liability per policy which can be written for each class and by each underwriter. These can be exceeded in exceptional circumstances but only with the prior approval of senior management. Apart from the motor excess of loss account, all policies have a per loss limit which caps the size of any individual claims. For larger sum insured risks, reinsurance coverage is purchased. The Syndicate also has significant catastrophe exposures which may impact many risks in a single event and again reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in the 2010 Reinsurance Arrangements section above.

Insurance liabilities are assumed through individual risk acceptances, reinsurance treaties or binding authorities. Binding authorities delegate underwriting authority to other underwriters, or agents acting as coverholders, who use their

judgement to write risks on Syndicate 958’s behalf under clear authority levels. In such situations, the coverholder’s activities are closely monitored and reviewed, and periodic on-site audits are carried out, either by Syndicate personnel or independent firms, to ensure that the terms of the delegated authorities are being adhered to.

The insurance contracts underwritten by the Syndicate are peer reviewed on a risk based basis by other underwriters on the Syndicate and a sample of risks is reviewed quarterly by the independent peer reviewer, Ian Mercer, who is a non-executive director on the OUAL Board, and provides reports to the Board on his findings.

RESERVING

All claims arising are reserved upon notification. For 2010 and going forward, a more intensive reserving process will be adopted. At the end of each quarter, the entire portfolio of business will be subject to a reserving process whereby levels of paid and outstanding claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. The quarterly review process will involve the Reserving Committee which is made up of senior executives, including the active underwriter and the in-house actuary. The position is then reviewed at the half year and year close by the Syndicate’s external actuary, Milliman. Whilst a detailed and disciplined exercise is carried out, it is possible that known claims could develop and exceed the reserves carried. Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims. Consequently, there is a possibility that claims may arise which in aggregate exceed the reserve provision established.

REINSURANCE ARRANGEMENTS

The Syndicate purchases specific reinsurances at class of business level to protect against single risk losses. Proportional reinsurance is purchased from Omega Specialty on a whole account basis to reduce exposure on catastrophe exposed accounts. The Syndicate also purchases general excess of loss reinsurance to protect itself from severe frequency or size of losses. Finally, whole account stop loss reinsurance protection is purchased to limit the loss beyond a stated net loss ratio. The structure of the

programme and type of protection bought will vary from year to year depending on the availability and price of cover.

CREDIT RISK

Credit risk is the risk that the Syndicate becomes exposed to loss if a counterparty fails to perform its contractual obligations, including failure to perform them in a timely manner. Credit risk could therefore have an impact upon the Syndicate's ability to meet its claims as they fall due. Credit risk manifests itself through the Syndicate's relationship with brokers, coverholders and its reinsurers. The Syndicate is also exposed to credit risk in its investment portfolio. The credit risk in the investment portfolio is dealt with separately under Market Risk below.

The credit risk in respect of reinsurers is primarily managed by the Syndicate's recently established Reinsurance Security Committee. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on the Syndicate's own ratings for each reinsurer, which is based on input from external agencies. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer. The recovery of debt from reinsurers is overseen by the newly formed Financial Operations Committee.

Credit risk in respect of premium debt from brokers and coverholders is overseen by the Financial Operations Committee. The key controls include broker approval, regular financial review and internal rating of brokers and regular monitoring of premium settlement performance.

MARKET RISK

Market risk is derived primarily from the Syndicate's investment of trust fund monies, and also from currency exposures. The Board has always taken the view that its principal activity is insurance and thus, it is this activity from which profit should be derived rather than relying on a secondary stream of income from its investment portfolio. As a consequence, the Board has agreed a low risk appetite investment strategy so as to mitigate the potential for jeopardising a positive underwriting return.

INVESTMENT CREDIT RISK

The price of bond holdings will be affected by several factors including investors' perception of an issuer's ability to meet its company obligations in a timely manner. Credit risk within the investment portfolios is managed through research carried out by the Syndicate's appointed investment managers, Amundi, whose activities are closely monitored by the Investment Committee and which establishes the guidelines by which Amundi operates. The Syndicate's investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies. In accordance with this risk appetite statement referred to in the introduction to Market risk, the Investment Committee has taken the view, in tandem with the Amundi, that credit risk in the corporate section remains too volatile at present. This is reflected by the modest holdings in corporate investments referred to in the table on page 7 above, compared to government related bonds.

VALUATION RISK

The Syndicate's investment earnings are directly affected by changes in the valuations of the assets held in the portfolios. These valuations vary according to the movements in the underlying markets. The Syndicate's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are described in their published annual audits.

INTEREST RATE RISK

Market expectations for interest rates impact bond yields. The value of the Syndicate's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security the greater its price volatility. Typically, the longer the maturity of a bond the greater its duration. Again, in line with the defined low appetite for market risk, the duration of the portfolios at 31 December 2009 ranged from 0.71 to 0.88 years within the duration of the USD portfolio standing at 0.88 year at the close of 2009. The

investment managers will continue to actively manage duration to protect the Syndicate from interest rate volatility.

FOREIGN EXCHANGE RISK

Policyholders' assets are held in the base currencies of Sterling, Euros, US dollars and Canadian dollars, which represent the vast majority of the Syndicate's liabilities by currency. This limits the underlying foreign exchange risk.

Foreign exchange risk arises when non-sterling profits are converted into Sterling. Given that circa 65% of the Syndicate's income is USD derived, a significant proportion of the Syndicate's profit is traditionally in USD. It is, therefore, OUAL's policy to seek to mitigate foreign exchange risk in this regard. This will particularly be the case during the second year of a year of account when earned profit becomes increasingly distinguishable. The approach taken depends upon the circumstances prevailing at the time and is managed through the Financial Operations Committee.

As referred to earlier, the potential effect of rate of exchange fluctuations on the closing 2007 year was actively managed during the course of 2009. This was achieved through a combination of taking independent expert advice on anticipated rate of exchange movements and the purchase of appropriate forward sales contracts. These were entered into with a well rated bank, so as to limit the counterparty risk. The transactions were not designed as specific hedges and therefore realised and unrealised gains and losses were recorded in the profit and loss account of the period in which they occurred. As at 31 December 2009 the Syndicate had no forward contracts outstanding.

To re-emphasise, as with investment risk, the Syndicate sees its primary risk as being the underwriting function and it is from this that profit should primarily be derived. Consequently, it is not the intention to take speculative currency positions in order to make gains. The purpose is only ever to protect against the downside.

LIQUIDITY RISK

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed closely. A margin of liquid assets is held in excess of the immediate requirements to avoid having to sell assets, which may result in prices below fair value being realised. Moreover, the downturn of assets is maintained at a level to match liability durations and in recognition of the Syndicate's catastrophe exposures. Greater levels of cash and/or liquid assets may be held when determined by market conditions and as is considered appropriate by the Investment Committee and the investment manager.

Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios.

REGULATORY RISK

Regulatory risk is the risk that the Syndicate fails to meet the regulatory requirements of the Financial Services Authority, Lloyd's and those of overseas regulators where Lloyd's Syndicates are licensed to trade. OUAL's Compliance Officer monitors regulatory developments and provides advice to the Board as necessary.

As mentioned earlier in this report, Solvency II, which is being overseen by Lloyd's and the FSA, which will come into force for the 2013 year of account. It presents a number of challenges to OUAL to gain equivalence to the requirements of the legislation within the prescribed timetables. Failure to do so could have severe commercial and regulatory implications and as a consequence, the Board of OUAL has given the Risk Committee direct responsibility to oversee this project to a satisfactory conclusion.

OPERATIONAL RISK

Operational risk is the risk that the failure of people, systems or processes has an adverse impact on the business. The Syndicate manages these risks through internal monitoring processes.

As is referred to under the section headed Solvency II earlier in this report, OUAL has introduced an internal audit function and a Head of Risk Management will be joining the organisation shortly. It will be their joint responsibility to test the integrity and thereby further enhance the systems and controls in place where necessary that form the risk management framework. In doing so, they will assist OUAL going forward in meeting its strategy and operational objectives by reference to its stated risk appetite.

GROUP RISK

This is the risk that the activities of one or more of the Omega Group Companies other than OUAL could have a prejudicial effect on the Syndicate. The opening remarks in this report put into context this risk and as stated, the OUAL Board continues in its resolve to mitigate this risk on an ongoing basis.

DIRECTORS

The Directors of the managing agent who served during the year ended 31 December 2009 were as follows:

Mr. J. D. Robinson
(active underwriter - resigned 3 September 2009)

Mr. A. J. Adie

Mr. M. I. Daly

Mr. W. M. Fiederowicz
(non-executive director)

Mr. I. W. Mercer
(non-executive director)

Mr. R. B. Morgan
*(non-executive chairman
- resigned 3 September 2009)*

Mr. J. F. Powell
*(non-executive director;
non-executive chairman from 3 September 2009)*

Mr. J. B. Raishbrook

Ms. D. Vanous
*(active underwriter with effect from
3 September 2009)*

DIRECTORS' INTERESTS

The directors' participations in the premium income capacity of the 2007 year of account of the Syndicate either through Scottish Limited Partnership or limited liability companies are as follows:

	2007 YEAR OF ACCOUNT £
Mr. W. M. Fiederowicz	194,524

Mr. W. M. Fiederowicz, Mr. R. B. Morgan, Mr. J. D. Robinson and Mr. M. I. Daly, are shareholders of Omega Insurance Holdings Limited and, as such, are underwriting through the wholly-owned dedicated vehicle, Omega Dedicated Limited.

The total capacity of the 2007 year of account of the syndicate was £273.7m, including the whole account qualifying quota share.

DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the agency and the Syndicate's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITORS

The managing agent intends to recommend the reappointment of Ernst & Young LLP as the Syndicate's auditors, subject to support of the Syndicate's members.

By order of the Board

A. J. Adie
Managing Director
London

12 March 2010

The managing agent is responsible for preparing the syndicate annual accounts in accordance with applicable laws and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with UK GAAP (UK accounting standards and applicable law). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
4. prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' web site. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

We have audited the syndicate's annual accounts for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 18. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE MANAGING AGENT AND AUDITORS

As described in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of the annual accounts in accordance with applicable United Kingdom law and Accounting Standards.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the annual accounts give a true and fair view of the state of the syndicate's affairs as at 31 December 2009 and of its profit for the year then ended; have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and have been properly prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We also report to you whether in our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the annual accounts.

In addition we report to you if, in our opinion, the managing agent in respect of the syndicate has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding remuneration of directors of the managing agent and other transactions is not disclosed.

We read the Report of the Directors of the Managing Agent and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

OPINION

In our opinion:

- the annual accounts give a true and fair view of the state of the syndicate's affairs as at 31 December 2009 and of its profit for the year then ended;
- the annual accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the annual accounts have been properly prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008; and
- the information given in the Report of the Directors of the Managing Agent is consistent with the annual accounts.

Cliff Houghton (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP
(Statutory Auditor)
London

12 March 2010

**PROFIT AND LOSS ACCOUNT:
TECHNICAL ACCOUNT – GENERAL BUSINESS**

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	£000	2009 £000	£000	2008 £000
Earned premiums, net of reinsurance					
Gross premiums written	3		324,914		328,521
Outward reinsurance premiums			(106,804)		(89,780)
Net premiums written			218,110		238,741
Change in the provision for unearned premiums:					
Gross amount			(2,792)		(18,267)
Reinsurers' share			1,928		(2,059)
Change in the net provision for unearned premiums			(864)		(20,326)
Earned premiums, net of reinsurance			217,246		218,415
Allocated investment return transferred from the non-technical account			9,303		17,201
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(191,005)		(149,531)	
Reinsurers' share		64,327		40,775	
Net claims paid		(126,678)		(108,756)	
Change in the provision for claims					
Gross amount		25,289		(97,749)	
Reinsurers' share		(3,298)		41,171	
Change in the net provision for claims		21,991		(56,578)	
Claims incurred, net of reinsurance			(104,687)		(165,334)
Net operating expenses	5		(91,150)		(29,040)
Balance on the technical account for general business			30,712		41,242

All operations are continuing.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Balance on the general business technical account		30,712	41,242
Investment income	8	10,941	15,312
Unrealised gains/(losses) on investments		(1,251)	2,143
Investment expenses and charges	8	(387)	(254)
Allocated investment return transferred to general business technical account		<u>(9,303)</u>	<u>(17,201)</u>
Profit for the financial year		<u>30,712</u>	<u>41,242</u>

There is no Statement of Total Recognised Gains and Losses because the syndicate has no recognised gains or losses other than the profit for the period.

BALANCE SHEET – ASSETS

AT 31 DECEMBER 2009

	NOTES	£000	2009 £000	£000	2008 £000
Investments					
Financial investments	9		279,842		307,238
Deposits with ceding undertakings			40		668
Reinsurers' share of technical provisions					
Provision for unearned premiums		27,710		25,782	
Claims outstanding	4	<u>117,221</u>		<u>132,686</u>	
			144,931		158,468
Debtors					
Debtors arising out of direct insurance operations	10	109,027		162,217	
Debtors arising out of reinsurance operations	10	69,413		76,159	
Other debtors		<u>2,361</u>		<u>2,042</u>	
			180,801		240,418
Other assets					
Cash at bank and in hand			29,784		60,896
Other	11		27,721		25,365
Prepayments and accrued income					
Accrued interest		340		1,803	
Deferred acquisition costs		24,542		23,339	
Other prepayments and accrued income		<u>811</u>		<u>1,040</u>	
			25,693		26,182
Total assets			<u>688,812</u>		<u>819,235</u>

BALANCE SHEET – LIABILITIES

AT 31 DECEMBER 2009

	NOTES	<u>£000</u>	<u>2009</u> <u>£000</u>	<u>£000</u>	<u>2008</u> <u>£000</u>
Capital and reserves					
Members' balances	12, 18		66,658		94,673
Technical provisions					
Provision for unearned premiums		101,678		98,884	
Claims outstanding	4	<u>377,910</u>		<u>439,525</u>	
			479,588		538,409
Deposits received from reinsurers			19,325		15,969
Creditors					
Creditors arising out of direct insurance operations	13	54,840		37,204	
Creditors arising out of reinsurance operations	13	51,990		108,239	
Other creditors		<u>9,071</u>		<u>12,111</u>	
			115,901		157,554
Accruals and deferred income			<u>7,340</u>		<u>12,630</u>
Total liabilities			<u>688,812</u>		<u>819,235</u>

The financial statements on pages 14 to 28 were approved by the Board of Omega Underwriting Agents Ltd on 12 March 2010 and were signed on its behalf by

J.B. Raishbrook
 Finance Director
 12 March 2010



STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Net cash inflow from operating activities	14	37,612	21,996
Transfer to members in respect of underwriting participations		(57,079)	(18,420)
Financing:			
Members' agents' fees paid on behalf of members		(1,648)	(1,667)
	15	<u>(21,115)</u>	<u>1,909</u>
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	15	(29,750)	19,629
Increase in deposits		1,696	(5,861)
Net portfolio investment	16	<u>6,939</u>	<u>(11,859)</u>
Net investment of cash flows		<u>(21,115)</u>	<u>1,909</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

1. BASIS OF PREPARATION

These annual accounts have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers, except that exchange differences are dealt with in the technical account as there are no non-technical items.

2. ACCOUNTING POLICIES

PREMIUMS WRITTEN

Premiums written comprise premiums on contracts inception during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

UNEARNED PREMIUMS

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

REINSURANCE PREMIUM CEDED

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

CLAIMS PROVISIONS AND RELATED RECOVERIES

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based on assessments of the business accepted and underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the estimates used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

UNEXPIRED RISKS PROVISION

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

DEFERRED ACQUISITION COSTS

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

FOREIGN CURRENCIES

Transactions in US dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate. Non-monetary assets and liabilities are translated at the rates ruling at the transaction dates.

Exchange differences arising from the translation of non-monetary items at transaction rates are included in the technical account.

INVESTMENTS

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value (bid value) and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

INVESTMENT RETURN

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

2. ACCOUNTING POLICIES CONTINUED

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

TAXATION

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

PROFIT COMMISSION

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause.

3. SEGMENTAL ANALYSIS

AN ANALYSIS OF THE UNDERWRITING RESULT BEFORE INVESTMENT RETURN IS SET OUT BELOW:

2009	GROSS WRITTEN PREMIUMS £000	GROSS PREMIUMS EARNED £000	GROSS CLAIMS INCURRED £000	GROSS OPERATING EXPENSES £000	RE-INSURANCE BALANCE £000	TOTAL £000	NET TECHNICAL PROVISIONS £000	COMMISSIONS ON GROSS PREMIUMS EARNED £000
Direct insurance:								
Accident and health	2,406	2,708	(1,063)	(1,107)	(312)	226	(1,168)	
Motor (third party liability)	206	342	(726)	(88)	162	(310)	(696)	
Motor (other classes)	1,056	1,269	(2,914)	(422)	(214)	(2,281)	(3,414)	
Marine aviation and transport	30,013	34,516	(16,634)	(7,746)	(4,582)	5,554	(35,022)	
Fire & other damage to property	56,177	56,873	(37,757)	(22,117)	(3,286)	(6,287)	(57,640)	
Third party liability	41,302	38,862	(31,288)	(15,523)	4,995	(2,954)	(62,177)	
Miscellaneous	1,826	1,890	(793)	(896)	(16)	185	(2,219)	
	132,986	136,460	(91,175)	(47,899)	(3,253)	(5,867)	(162,336)	35,350
Reinsurance	191,928	185,662	(74,541)	(44,175)	(39,670)	27,276	(172,321)	
Total	324,914	322,122	(165,716)	(92,074)	(42,923)	21,409	(334,657)	
2008								
Direct insurance:								
Accident and health	1,732	1,968	(1,309)	(51)	1,217	1,825	(2,170)	
Motor (third party liability)	692	759	(503)	(125)	123	254	(664)	
Motor (other classes)	1,340	1,465	(1,064)	(264)	600	737	(2,722)	
Marine aviation and transport	53,910	48,258	(67,610)	(4,174)	21,026	(2,500)	(54,737)	
Fire & other damage to property	65,894	60,603	(51,485)	(12,268)	6,438	3,288	(66,865)	
Third party liability	32,655	32,149	(14,291)	(7,152)	784	11,490	(57,003)	
Miscellaneous	2,333	2,301	(1,137)	(559)	50	655	(2,817)	
	158,556	147,503	(137,399)	(24,593)	30,238	15,749	(186,978)	35,832
Reinsurance	169,965	162,751	(109,881)	(12,061)	(32,517)	8,292	(192,963)	
Total	328,521	310,254	(247,280)	(36,654)	(2,279)	24,041	(379,941)	

Commissions on direct insurance gross premiums written during 2009 were £37,044,000 (2008 - £38,026,000).

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2009 £000	2008 £000
UK	43,996	42,731
Other EU countries	13,470	28,955
US	208,239	205,271
Other	59,209	51,564
Total	324,914	328,521

4. CLAIMS OUTSTANDING

A reassessment of the claims outstanding held at the previous year end resulted in a release from reserves of £7.1m.

As discussed in the Directors' Report, during the course of 2009 the reserves held in respect of Hurricane Katrina have been regularly reviewed and at 31 December 2009 the contingency reserve stood at \$8m.

5. NET OPERATING EXPENSES

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Acquisition costs	65,546	65,245
Change in deferred acquisition costs	(1,205)	(3,464)
Administrative expenses	9,906	9,350
Members' personal expenses	8,819	14,793
Loss/(Profit) on exchange	9,007	(49,271)
Reinsurers' commissions and profit participation	<u>(924)</u>	<u>(7,613)</u>
	<u>91,149</u>	<u>29,040</u>

Administrative expenses include:

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Audit of the syndicate annual accounts	157	150
Other services pursuant to Regulations and Lloyd's Byelaws	43	40
Services relating to information technology	<u>25</u>	<u>-</u>
	<u>225</u>	<u>190</u>

Audit of the Managing Agent's annual accounts £25,000 (2008 - £25,000).

6. STAFF NUMBERS AND COSTS

All staff are employed by Omega Administration Services Ltd. The following amounts were recharged to the syndicate in respect of salary costs:

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Wages and salaries	3,242	4,198
Social security costs	452	489
Other pension costs	494	508
Other	<u>164</u>	<u>93</u>
	<u>4,352</u>	<u>5,288</u>

The number of employees whose costs were charged in part or in full to the syndicate during the year was as follows:

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Administration and finance	23	14
Underwriting	16	16
Claims	<u>5</u>	<u>4</u>
	<u>44</u>	<u>34</u>

7. EMOLUMENTS OF THE DIRECTORS OF OMEGA UNDERWRITING AGENTS LIMITED

The directors of Omega Underwriting Agents Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Emoluments	612	483

This includes bonus payments of £169,000 (2008 - nil).

The active underwriter received the following remuneration charged as a syndicate expense

Emoluments	<u>270</u>	<u>207</u>
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This includes bonus payments of £53,000 (2008 - nil).

8. INVESTMENT RETURN

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Investment income		
Income from investments	13,805	10,872
Gains on the realisation of investments	<u>35</u>	<u>4,896</u>
	13,840	15,768
Unrealised gains on investments	1,596	2,919
Unrealised losses on investments	(2,847)	(776)
Investment Expenses and Charges		
Losses on the realisation of investments	(2,899)	(456)
Investment management expenses	<u>(387)</u>	<u>(254)</u>
	(3,234)	(710)
	<u>9,303</u>	<u>17,201</u>

9. FINANCIAL INVESTMENTS

	<u>MARKET VALUE</u>		<u>COST</u>	
	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Shares and other variable yield securities	10,609	8,595	10,609	8,595
Debt securities and other fixed income securities	268,996	298,350	269,476	294,813
Participation in investment pools	–	29	–	29
Deposits with credit institutions	<u>237</u>	<u>265</u>	<u>237</u>	<u>265</u>
	<u>279,842</u>	<u>307,239</u>	<u>280,322</u>	<u>303,702</u>

Syndicate 958 holds no investments with material exposure to the US sub-prime mortgage crisis. Any such exposure does not exceed 5% of the Syndicate's financial assets in aggregate. Certain of the financial investments previously treated as cash deposits have been redesignated as collective investment schemes. These investments are now shown as shares and other variable yield securities. This impacts the US Dollar sweep funds (CILF and CICR sweep) and the Sterling and Euro AIM Global funds.

10. DEBTORS

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Debtors arising out of direct insurance operations		
Due from intermediaries within one year	109,020	162,189
Due from intermediaries after one year	7	28
	<u>109,027</u>	<u>162,217</u>
Debtors arising out of reinsurance operations		
Due within one year	69,412	76,138
Due after one year	–	21
	<u>69,412</u>	<u>76,159</u>

11. OTHER ASSETS

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

12. RECONCILIATION OF MEMBERS' BALANCES

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Members' balances brought forward at 1 January	94,673	73,518
Profit for the financial year	30,712	41,242
Payments of profit to members' personal reserve funds	(57,079)	(18,420)
Payment of members' agents' fees	(1,648)	(1,667)
Members' balances carried forward at 31 December	<u>66,658</u>	<u>94,673</u>

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

13. CREDITORS

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Creditors arising out of direct insurance operations		
Due to intermediaries within one year	54,840	37,192
Due to intermediaries after one year	–	12
	<u>54,840</u>	<u>37,204</u>
Creditors arising out of reinsurance operations		
Due within one year	51,990	108,239
	<u>51,990</u>	<u>108,239</u>

14. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Operating profit on ordinary activities	30,712	41,242
Realised and unrealised investments (gains)/losses	39,020	(99,018)
Increase/(decrease) in net technical provisions	(45,284)	141,855
(Increase)/decrease in debtors	60,107	(152,395)
Increase in creditors	(46,943)	90,312
Net cash inflow from operating activities	<u>37,612</u>	<u>21,996</u>

15. MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Net cash (out)/inflow from the year	(29,750)	19,629
Cash flow		
(Decrease)/increase in overseas deposits	4,513	2,173
Portfolio investments	4,122	(19,893)
Movement arising from cash flows	(21,115)	1,909
Changes in market value and exchange rates	(39,020)	99,018
Total movement in portfolio investments	(60,135)	100,927
Portfolio at 1 January	378,198	277,271
Portfolio at 31 December	<u>318,063</u>	<u>378,198</u>

MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	<u>AT</u> <u>1 JANUARY</u> <u>2009</u> <u>£000</u>	<u>CASH</u> <u>FLOW</u> <u>£000</u>	<u>CHANGES TO</u> <u>MARKET</u> <u>VALUE AND</u> <u>CURRENCIES</u> <u>£000</u>	<u>AT</u> <u>31 DECEMBER</u> <u>2009</u> <u>£000</u>
Cash at bank and in hand	60,896	(29,750)	(1,361)	29,785
Overseas deposits	25,365	4,513	(2,157)	27,721
Portfolio investments:				
Shares and other variable yield securities	8,595	2,667	(653)	10,609
Debt securities and other fixed income securities	298,349	4,298	(33,651)	268,996
Participation in investment pools	29	(26)	(3)	–
Deposits with credit institutions	265	–	(28)	237
Deposits with ceding undertakings	668	(576)	(52)	40
Total portfolio investments	307,906	6,363	(34,387)	279,882
Deposits received from reinsurers	(15,969)	(2,241)	(1,115)	(19,325)
Total cash, portfolio investments and financing	<u>378,198</u>	<u>(21,115)</u>	<u>(39,020)</u>	<u>318,063</u>

Other loans comprise loans to the Lloyd's New Central Fund.

16. NET CASH (OUT)/INFLOW ON PORTFOLIO INVESTMENTS

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Purchase of shares and other variable income securities	(2,667)	(448)
Purchase of debt and other fixed income securities	(283,681)	(431,498)
Purchase of participation in investment pools	–	(12)
Sale of debt and other fixed income securities	279,383	443,817
Sale of participation in investment pools	<u>26</u>	<u>–</u>
Net cash inflow/(outflow) on portfolio investments	(6,939)	11,859
Purchase of deposits with credit institutions	–	7,812
Purchase of deposits with ceding undertaking	576	222
Purchase of deposits received from reinsurers	<u>2,241</u>	<u>–</u>
	<u>(4,122)</u>	<u>19,893</u>

17. RELATED PARTIES

Omega Underwriting Agents Limited is a wholly-owned subsidiary of Omega Insurance Holdings Limited, the ultimate parent company.

TRANSACTIONS BETWEEN THE MANAGING AGENT AND THE SYNDICATE

Profit commission of £4,610,000 is payable by the Syndicate to Omega Underwriting Agents Limited in respect of profits for the 2009 calendar year (2008 - £10,431,000). Profit commission is not normally paid until the year of account is closed after three years. On account payments of profit commission are permitted in circumstances when 'early release' of interim profits are transferred to members' personal reserve funds.

Managing agency fees of £1,869,000 were paid by the Syndicate to Omega Underwriting Agents Limited. In addition to this, expenses of £5,551,000 were paid by Omega Underwriting Agents Limited on behalf of the Syndicate and were recharged to the Syndicate.

Debtors at the year end include amounts due from Omega Underwriting Agents Ltd. of £427,000 (2008 - £468,000).

OMEGA SPECIALTY INSURANCE COMPANY LIMITED ("OSIL")

OSIL is a wholly-owned subsidiary of Omega Insurance Holdings Limited. OSIL is a registered Class 3 Bermuda Insurer.

Syndicate 958 renewed its gross whole account 20% quota share contract with OSIL for the 2009 year of account. This provided the Syndicate with proportional reinsurance protection across its whole account on terms that the Board of OUAL believes were not available from other reinsurers. These arrangements were provided on a full "follow the fortunes" basis and as such had no event or occurrence limits. The Syndicate benefits from an overriding commission of 4% and a 20% profit commission on these arrangements.

During 2009, the Syndicate ceded £52.0m of net signed premium to OSIL and collected £38.3m in reinsurance recoveries. At 31 December 2009 the Syndicate owed OSIL £9.0m of net signed premiums and was due to recover £7.7m on paid claims, with a further £34.1m due on incurred claims.

17. RELATED PARTIES (CONTINUED)

OMEGA EUROPE GMBH - INSURANCE INTERMEDIARY

Omega Europe is a wholly-owned subsidiary of Omega Insurance Holdings Limited. The company is based in Cologne and operates as a coverholder to Syndicate 958 writing European and international reinsurance business. Omega Europe wrote premium income of £36.2m in 2009 (2008 - £31.0m).

OMEGA DEDICATED LIMITED

Omega Dedicated Limited is a wholly-owned subsidiary of Omega Insurance Holdings Limited. The company is a Lloyd's corporate member supplying capital exclusively to Syndicate 958. Omega Dedicated Limited had a syndicate premium income limit of £40,947,000 for the 2009 year of account (2008 - £40,947,000). The company's share of the profits for the calendar year totalled £5.1m (2008 - £6.8m).

CTC AXIOM LIMITED

CTC Axiom Limited provides financial and other services both to the Omega Group and to Syndicate 958.

During the period, Syndicate 958 paid £202k to the company. No amounts were outstanding at the year end.

JLT RE

Roger Morgan held the position of non-executive chairman of Omega Underwriting Agents Limited during the period. At the same time, Mr. Morgan was a remunerated consultant with Lloyd's broker JLT Re. JLT Re placed business with Syndicate 958 to the value of £6.6m during the period.

18. FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyds which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

19. OFF-BALANCE SHEET ITEMS

Syndicate 958 has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the syndicate.

ADDITIONAL INFORMATION

CALENDAR YEAR INVESTMENT YIELD

THE FOLLOWING IS PROVIDED BY WAY OF ADDITIONAL INFORMATION AND DOES NOT FORM PART OF THESE ACCOUNTS

CALENDAR YEAR INVESTMENT YIELD

		<u>2009</u> <u>000'S</u>
Average monthly syndicate funds	£	45,485
	US\$	387,303
	Can \$	32,451
	Euro	44,519
	Sterling Equivalent	350,156
Aggregate investment return for the year	£	882
	US\$	7,448
	Can \$	266
	Euro	1,087
	Sterling Equivalent	6,746
Calendar year investment yield	£	1.94%
	US\$	1.92%
	Can \$	0.82%
	Euro	2.44%
	Sterling Equivalent	1.93%







