

**OMEGA**

**2009 Full Year Results**

Richard Tolliday, Chief Executive Officer  
Penny James, Chief Financial Officer



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# **SECTION 1**

## **OVERVIEW & KEY HIGHLIGHTS**

Richard Tolliday, Chief Executive Officer



## Overview of FY 2009

### ■ Strong year-on-year financial performance

- Profit before tax of US\$47.1 million (2008: US\$28.2 million) and US\$50.7 million excluding non-recurring corporate expenses
- Profit after tax of US\$43.6 million (2008: US\$22.2 million)
- Gross premium income of US\$265.8 million (2008: US\$265.4 million)
  - significant growth in new operating platforms in Bermuda and US
  - offset by reductions in share of the Syndicate premium
- Loss ratio of 49.3% (2008: 76.0%)
- Combined ratio of 81.4% (2008: 101.4%)



## Overview of FY 2009

### ■ Strong year-on-year financial performance

- Investment return of 2.8% (2008: 5.8%)
- Earnings per share of 18.6 cents (2008: 15.1 cents)
- Return on average equity of 9.8% (2008: 7.5%)
- Final dividend of 6.5 cents per share, equating to a total dividend for the year of 12.5 cents per share (2008: 11.3 cents), being 70% of profit after tax



## Overview of FY 2009

### ■ Excellent operational highlights

- Daria Vanous fully transitioned into role as Active Underwriter of Syndicate 958 and Group Chief Underwriting Officer
  - Continuing development of Group infrastructure to comply with listing and evolving regulatory requirements
  - Solvency II planning and implementation on track
- Bermuda third-party reinsurance book growing and now a considerable contributor to profit
- Omega US growing rapidly, writing gross premiums of US\$36.2 million in 2009 (2008: US\$10.8 million)
- New roles include Chief Actuary, Head of Internal Audit and Head of Investor Relations
- Some softening of rates but profit margins still healthy on key catastrophe exposed classes



## Capacity Offer

### ■ Acquisition of Capacity

- Post Capacity Offer (July 2009) and further capacity acquisition (Lloyd's November 2009 auction), Omega owns 38.8% (2008: 16.4%) of total capacity on Syndicate 958 for the 2010 year of account
- Growth through the acquisition of a mature portfolio of business
- Capacity was acquired at an average price of 40.6 pence per £ of capacity during the Capacity Offer
- Full impact of capacity acquired expected in 2011
  - Considerable growth in top line premium income expected
  - Reduced fee income for managing Syndicate 958



## Special General Meeting

- **Special General Meeting convened to vote on proposed changes to the Board**
  - Extensive shareholder dialogue over Board composition since October 2009
  - Recognition by the Board of the strength of shareholder sentiment
  - SGM called by the company to facilitate shareholder vote on new non-executive directors
  - Omega's Independent Directors are unable to support the proposals due to concerns over corporate governance impact and lack of transparency over proposed Board's plan for the business
  - A.M. Best ratings under review pending clarity on future plans
  - SGM date set for 12 March



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## **SECTION 2**

### FINANCIAL REVIEW

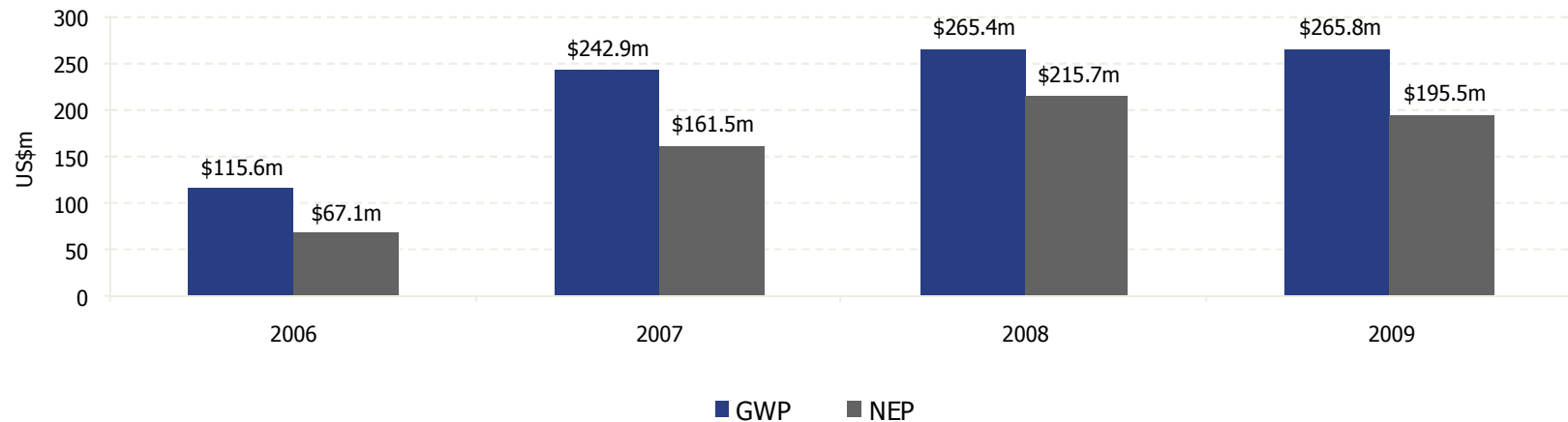
Penny James, Chief Financial Officer



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## Income Statement

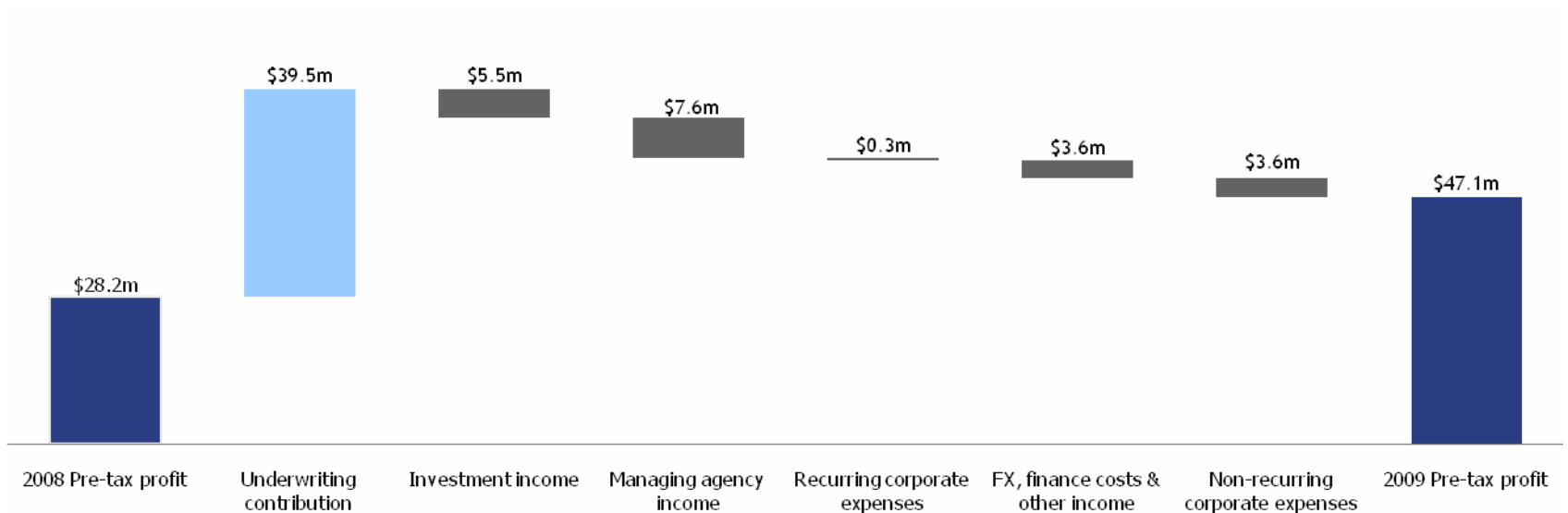
<i>US\$ millions</i>	<b>FY 2009</b>	<b>FY 2008</b>
<b>Gross premiums written</b>	<b>265.8</b>	<b>265.4</b>
Net premiums written	199.3	224.6
<b>Net premiums earned</b>	<b>195.5</b>	<b>215.7</b>
Investment return	16.3	21.8
Managing agency fees and profit commission	15.9	23.5
Net insurance claims	(96.3)	(163.9)
Net commission costs	(55.8)	(46.7)
Other underwriting expenses	(6.9)	(8.0)
Other corporate expenses: non-recurring	(3.6)	-
Other corporate expenses: other	(18.3)	(18.0)
FX, finance costs and other income	0.3	3.8
<b>Profit before tax</b>	<b>47.1</b>	<b>28.2</b>
Return on average equity (%)	9.8%	7.5%
Earnings per share (cents)	18.6 cents	15.1 cents
Effective tax rate (%)	7.3%	21.3%



## Commentary

- Growth in US and Bermuda offset by writings falling on Syndicate share as a result of reduced income from the Syndicate including the quota share moving to 20% from 27.5% for the 2008 year of account onwards
- More conservative view taken on Syndicate pipeline premium estimates
- Reduction in net premiums due to higher reinsurance spend, due to a greater proportion of US catastrophe business written, coupled with a shift in our reinsurance buying from industry loss warranties (ILW's) to excess of loss protection
- Growing books on newer platforms alongside increased share of the Syndicate to drive future growth

## Analysis of change in Profit Before Tax



- Investment income includes a one-off gain of \$5.9 million on foreign exchange derivative contracts held to manage the US dollar currency risk of the Group's capital raise (£124m net of expenses)
- Managing agency income is lower due to profit commission on FX gains in 2008. Functional currency of the managing agency changed from Sterling to US Dollars in 2009 to eliminate this effect
- Non-recurring corporate expenses includes costs of the main market listing, costs related to John Robinson's departure and legal costs related to shareholder demands for changes to the Board



## Ratio Analysis

	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>
Loss ratio	49.3%	76.0%	48.8%
Commission expense ratio	28.6%	21.7%	27.8%
Other underwriting expense ratio	3.5%	3.7%	2.7%
Corporate expense ratio: non-recurring	1.7%	-	-
Corporate expense ratio: other	9.5%	8.3%	13.7%
<b>Combined ratio (ex Corporate Expense overhead)</b>	<b>81.4%</b>	<b>101.4%</b>	<b>79.3%</b>
<b>Combined ratio (inc Corporate Expense overhead)</b>	<b>92.6%</b>	<b>109.7%</b>	<b>93.0%</b>



## Ratio Analysis - commentary

- Loss ratio:
  - 2009 free of catastrophe events
  - Some prior year strengthening of longer tail lines, in particular motor, liability and professional indemnity
- Commission expense ratio:
  - 2009 suffered from lower profit commission on outwards reinsurance due to reserve strengthening on the 2008 year of account
- Corporate expense ratio:
  - Non-recurring corporate expenses includes listing costs, John Robinson's leaving costs and costs of shareholder activity



## Investment Performance

	2009		2008	
	Assets	Return	Assets	Return
	US\$m	%	US\$m	%
Share of Syndicate funds	89	2.0%	93	5.3%
Corporate premium funds	12	0.1%	16	4.1%
Corporate funds supporting underwriting :				
Bermuda	449	1.8%	269	5.8%
US	60	1.5%	51	3.0%
<b>Total excluding FX derivatives</b>	<b>610</b>	<b>1.7%</b>	<b>429</b>	<b>5.3%</b>
Gains on FX derivatives		1.1%		0.5%
<b>Total including FX derivatives</b>	<b>610</b>	<b>2.8%</b>	<b>429</b>	<b>5.8%</b>



## Balance Sheet

<i>US\$ millions</i>	<b>FY 2009</b>	<b>FY 2008</b>
Investments and cash	610.2	429.2
Insurance receivables	43.1	30.0
Reinsurance assets	88.9	98.1
Deferred acquisition costs	22.1	20.4
Intangible assets	43.0	2.3
Other assets	43.7	57.8
<b>Total assets</b>	<b>850.9</b>	<b>637.8</b>
Claims outstanding	211.4	211.1
Unearned premiums	93.6	84.7
Other liabilities	50.0	58.4
<b>Total liabilities</b>	<b>354.9</b>	<b>354.2</b>
<b>Total stockholders' equity</b>	<b>496.0</b>	<b>283.6</b>
<b>Net tangible assets</b>	<b>453.0</b>	<b>281.3</b>



## Balance Sheet Highlights

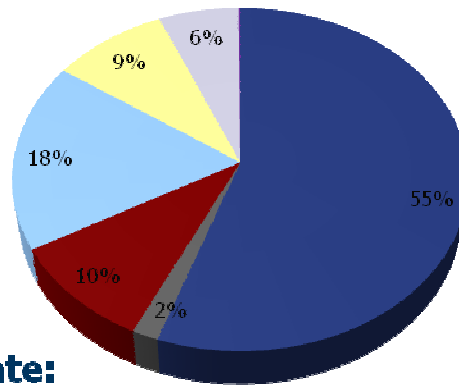
- Net tangible assets of US\$453.0 million (2008: US\$281.3 million)
- US\$191.9 million raised via share placing
- Intangible asset of US\$39.3 million from the acquisition of Syndicate capacity
- The Group remains ungeared





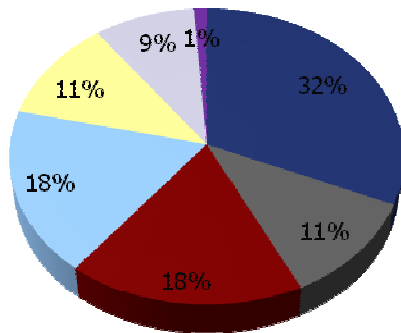
# Asset Allocation of Investment Portfolio

**Total Group: \$610m**

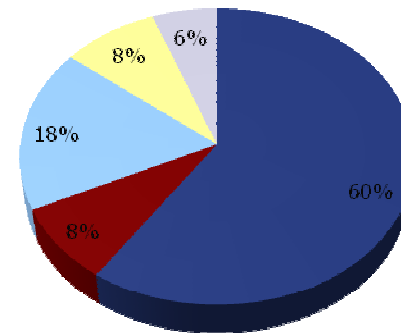


- Govt Bonds
- Govt Agency
- Govt Guaranteed
- Corporate Bonds
- Money market deposits
- Cash deposits
- Other

**Group Share of Syndicate: \$89m**



**Corporate: \$521m**



- Reduction in cash and money market deposits during the year from 37% to 15%
- Increase in government guaranteed bond holdings from 4% to 10%
- Increase in holdings of investment grade corporate bonds from 11% to 18%



## Credit Quality of Bond Portfolio

<i>At 31 December 2009</i>	<b>Govt/Agency</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Assets</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>US\$m</b>
Government Bonds	65	-	-	-	-	338
Government Agency	2	-	-	-	-	10
Government Guaranteed	12	-	-	-	-	59
Municipal Bonds	*	-	-	-	-	1
Corporate Bonds	-	1	8	12	-	109
<b>Total</b>	<b>79</b>	<b>1</b>	<b>8</b>	<b>12</b>	<b>-</b>	<b>517</b>

- 100% of fixed income portfolio rated "A" or higher
- 80% of fixed income portfolio rated "AAA" or higher

*Note: \* represents less than 0.5% of total holding*



## Estimated capital utilisation

<i>US\$ millions</i>	<b>FY 2009</b>
<b>Total equity &amp; reserves as at 31 December 2009</b>	<b>496</b>
Minimum required capital to meet ratings agency & regulatory requirements	
Omega Specialty Insurance Company Ltd	295
Omega US Insurance Inc	45
Omega Dedicated Ltd	13
<b>Minimum capital to support underwriting at 31 Dec 2009</b>	<b>352</b>
Capital utilised/committed for capacity increases	71
2009 final dividend	14
<b>Capital in excess of minimum including funding of future growth in Omega US and Omega Specialty</b>	<b>59</b>
<b>Percentage of available capital</b>	<b>12%</b>



## Capital utilisation cont'd

- In reviewing required levels of capital we consider:
  - our business plan
  - regulatory and rating agency requirements
  - shareholder returns
- The majority of capital raised has been deployed:
  - to support the acquisition of capacity on Syndicate 958 from 16.4% to 38.8%
  - to support future growth in Omega Specialty and Omega US
- The remaining capital raised has been set aside for Omega Specialty and Omega US, where we have long term growth aspirations
- The Group is committed to maintaining the dividend at 70.0% of net profit and is therefore paying a total dividend for the year of 12.5 cents per share (2008: 11.3 cents)



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## **SECTION 3**

### **BUSINESS REVIEW**

Richard Tolliday, Chief Executive Officer



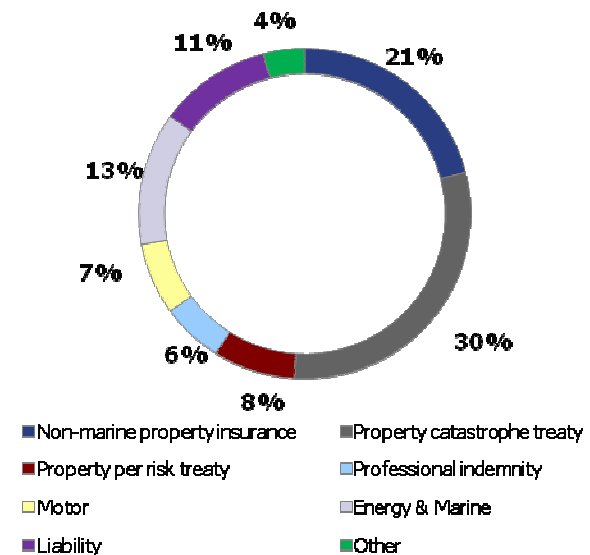
## Business Review – Syndicate 958

- Daria Vanous transitioned into role as Active Underwriter and Group Chief Underwriting Officer
- Rates have softened but margins remain healthy
- Group share of premium year on year reduces due to the 27.5% quota share for the 2007 y.o.a. reducing to 20% from 2008
- Omega increased stake to 38.8% (2008: 16.4%) of total capacity on Syndicate 958 for the 2010 year of account (following capacity offer in Jul '09 and Lloyd's Nov '09 auction)

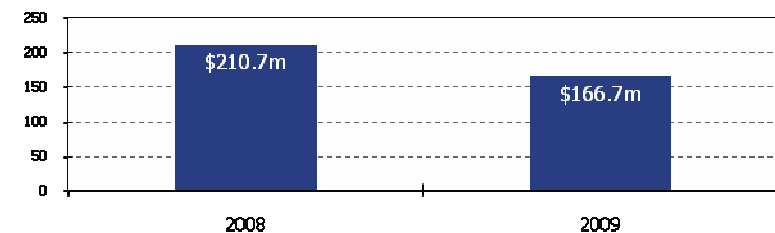
	2007	2008	2009	2010
<b>Effective Capacity</b>	\$441m	\$478m	£496m	£420m
<b>Forecast Profit Range</b>	12.5% - 17.5%	0.0% - 5.0%	n/a	n/a
<b>Group share</b>	15.2%	16.4%	16.4%	38.8%
<b>Quota Share reinsurances with Omega</b>	27.5%	20.0%	20.0%	20.0%

Group participation on Syndicate 958  
Gross Premiums Written by Class of Business

Total US\$166.7 million



Gross Written Premium - Group Share



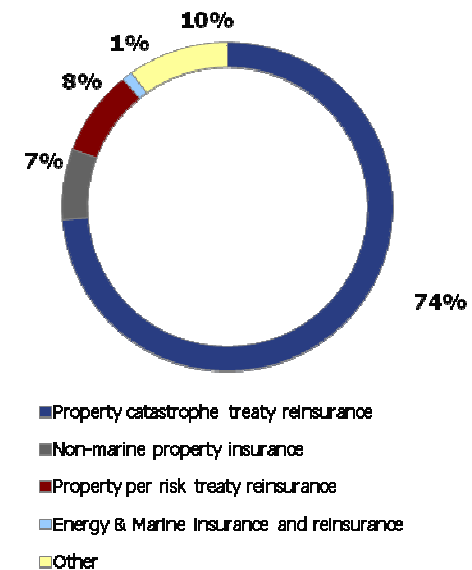


## Business Review – Omega Specialty (Bermuda)

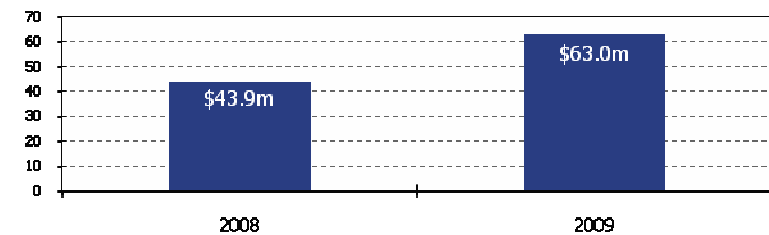
- Bermuda third party reinsurance account of predominantly property catastrophe reinsurance
- Now a considerable contributor to profit
  - PBT of US\$17.5m (2008: US\$4.4m)
- Very low claims experience in 2009
  - Loss ratio of 20.9% (2008: 63.8%)
- Catastrophe rates have softened, albeit from record levels post-Ike
- Key catastrophe exposed lines still offering healthy profitability
- Overcapacity in the market is likely to result in the book remaining flat in 2010

2009 Gross Premiums Written by Class of Business

Total US\$63.0 million



Gross Written Premium - Group Share



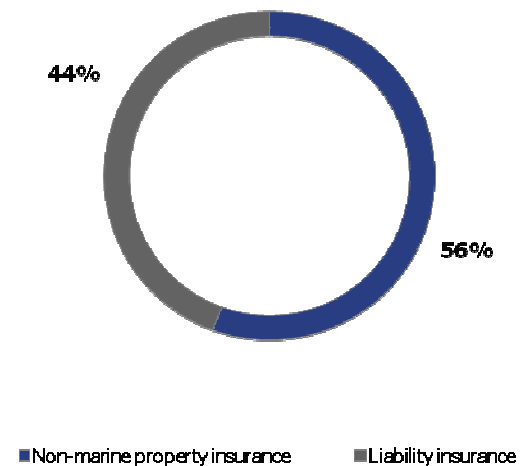


## Business Review – Omega US

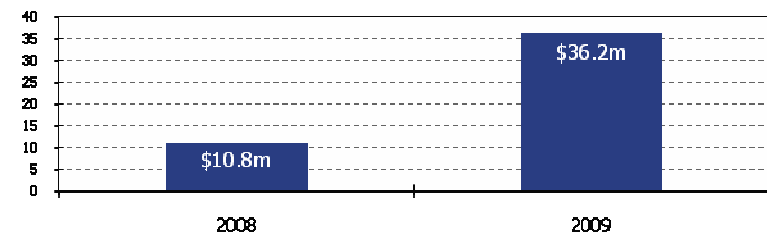
- Omega US writes non-marine and liability insurance on a surplus lines basis
- Start up book now building strongly
  - GWP of US\$36.2m (up from US\$10.8m in 2008)
- Licensed in 42 US jurisdictions
  - Obtained new E&S licences for Minnesota and New Mexico
- Building on Omega’s long term relationship with agents
- Strengthened underwriting team and continuing to build infrastructure
  - Financial team insourced
  - Headcount up to 11 full time employees
- Combined ratio below 100% targeted for 2010
- Steady growth through 2010 in current conditions as greater selection is required

### 2009 Gross Premiums Written by Class of Business

Total US\$36.2 million



### Gross Written Premium - Group Share





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## **SECTION 4**

### Outlook and Prospects

Richard Tolliday, Chief Executive Officer



## Outlook & Prospects

- Considerable premium income growth expected in 2010 due to the impact of the capacity acquisition
- Despite recent softening, key reinsurance and catastrophe exposed classes generating strong profitability
- Continued progress being made in building the infrastructure of the Group
- The Group is optimally positioned going forward, with platforms in Bermuda, US, London and Europe



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**Q&A**



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# **APPENDICES**



# Optimal Financial and Operational Structure

