



**OMEGA**

*Syndicate Annual Accounts*

FOR THE YEAR ENDED 31 DECEMBER 2005

**SYNDICATE 958**

**OMEGA UNDERWRITING AGENTS**

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## DIRECTORS AND ADMINISTRATION

### MANAGING AGENT

Omega Underwriting Agents Limited

### DIRECTORS

Mr. J. S. Barber (non-executive)  
Mr. D. R. Burchett  
Mr. M. I. Daly  
Ms. N. J. Davies  
Mr. R. B. Morgan (non-executive chairman)  
Mr. C. F. Palmer (non-executive)  
Mr. J. F. Powell (non-executive)  
Mr. J. B. Raishbrook  
Mr. J. D. Robinson

### COMPANY SECRETARY

Mr. A. J. Redman

### MANAGING AGENT'S REGISTERED OFFICE

4th Floor  
New London House  
6 London Street  
London  
EC3R 7LP  
[www.omegauw.com](http://www.omegauw.com)

### MANAGING AGENT'S REGISTERED NUMBER

3437356

### SYNDICATE

#### ACTIVE UNDERWRITER

Mr. J. D. Robinson

#### BANKERS

Barclays Bank plc  
1 Churchill Place  
London  
E14 5HP

#### INVESTMENT MANAGERS

Alliance Capital Whittingdale Limited  
Devonshire House  
1 Mayfair Place  
London  
W1X 6JJ

#### REGISTERED AUDITORS

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

#### SOLICITORS

LeBoeuf, Lamb, Greene & MacRae  
No. 1 Minster Court  
Mincing Lane  
London  
EC3R 7AA

The directors of the managing agent present their report for the year ended 31 December 2005.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations").

Separate underwriting year accounts for the closed 2003 account will be made available to the syndicate members.

#### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the business remains the transaction of general insurance and reinsurance business in the United Kingdom. The Lloyd's insurance market is, like general market insurers, undergoing a period of change, both in reporting and supervision. We are well prepared for all of these changes.

Not surprisingly, 2005 was dominated by the catastrophe losses in the United States, most notably Hurricane Katrina which is almost certainly the world's largest ever insured natural perils loss. All the catastrophe losses will affect the Lloyd's 2004 and 2005 years of account to a greater or lesser degree but overall we expect both years to produce useful profits.

It is important to point out that the first six months of 2005 produced the lowest underwriting incurred loss ratio experienced by the syndicate in the last twelve years, and as such was an excellent start to the year and enabled us to take the subsequent hurricane losses in our stride. We estimate the net exposure to Syndicate 958 of Hurricane Katrina to be £14.0m. The aggregate net exposure of Hurricanes Katrina, Wilma and Rita are estimated to be £25.6m of which £2.2m falls to the 2004 year of account and £23.4m to the 2005 year of account.

The premium income and exposures within the individual classes of business are all, without exception, in line with our business plan and there are no new areas being transacted. This is also true of the 2006 year in the first quarter to date.

Rates, terms and conditions are improving by the day and we are anticipating an increasingly hard market for the syndicate's non-marine property account, both reinsurance and, increasingly, the surplus lines insurance account. It is likely that this hard market will continue at least through 2007 and probably 2008. Also, recognising that the bulk of the syndicate's business is of a smaller type or nature, the premiums are less likely to come under competition than perhaps some of the very large premium risks in the market.

The only real issue is the lack of quality reinsurance now available following the losses of 2005. As a consequence, the syndicate will be running considerably larger net event exposures, albeit on lower gross exposures and on business with fundamentally much better terms and conditions. (The situation is not unlike 1993/1994 which were the years immediately following Hurricane Andrew).

Overall we remain very optimistic in the immediate future and believe the syndicate should continue to be able to produce very good quality results over the long term.

#### RESULTS

The result for calendar year 2005 is a profit of £13.5m (2004 - £16.6m). Profits will continue to be distributed by reference to the results of individual underwriting years.

#### OMEGA GROUP

In the course of 2005, the parent company of Omega Underwriting Agents Limited, Omega Underwriting Holdings PLC ("OUH PLC") completed its flotation and its shares were admitted to the Alternative Investment Market ("AIM") with effect from 6th April 2005. Subsequent to its admission to AIM, OUH PLC raised further capital in December 2005. The funds raised in 2005, together with the existing Group funds, have been used by the Group to establish and capitalise a class 3 Bermudian insurance company. The company established in Bermuda is called Omega Specialty Insurance Co. Ltd. ("OSIL") and it was granted its insurance licence from the Bermuda Monetary Authority on the 13th February, 2006.

Amongst other things, OSIL now provides nearly all of the funds for Omega Dedicated Limited (“ODL”) (the Group’s Lloyd’s corporate capital vehicle) for it to support its underwriting participation on Syndicate 958 for 2006. For the 2006 year of account, ODL’s share of the Syndicate’s overall capacity represented 16.2% (2005: 12.9%).

Further, the OUAL Board has approved OSIL as acceptable security for the Syndicate’s reinsurance purposes for its 2006 year of account. The Omega Group has established corporate governance structures and controls to manage the Group’s affairs and to ensure, amongst other things, that any intra-group reinsurance arrangements are managed appropriately. In addition the Board of OUAL has approved guidelines for use by underwriters and staff who work for it in respect of any proposed intra-group reinsurances. These guidelines are designed to ensure any such reinsurance is effected on a commercial “arms length” basis and that any such contracts are in the best interest of the Syndicate and its members.

In accordance with these guidelines, OSIL entered into a 10% whole account quota share of the Syndicate’s business for its 2006 year of account. Furthermore, OSIL has entered into a contract providing surplus treaty capacity to the Syndicate for certain core lines of business which will provide the Syndicate’s underwriters with flexibility to meet any insured’s requirement for larger lines while ensuring that the Syndicate continues to operate within its traditional risk profile.

The contract also enables the Syndicate to underwrite additional business. This is predominantly US short tail non-marine business. These additions relate to business which will be developed by OSIL in its own right but which it is not able for reasons of licensing in particular jurisdictions to underwrite directly straight away. It is anticipated that such business will generate an estimated gross premium income for 2006 of up to £13m. The majority of this business will be reinsured by way of a quota share to OSIL.

#### DIRECTORS

The Directors of the managing agent who served during the year ended 31 December 2005 were as follows:

Mr. J. D. Robinson (*active underwriter*)  
 Mr. J. S. Barber (*non-executive*)  
 Mr. D. R. Burchett  
 Mr. M. I. Daly  
 Ms. N. J. Davies  
 Mr. R. B. Morgan (*non-executive chairman*)  
 Mr. C. F. Palmer (*non-executive*)  
 Mr. J. F. Powell (*non-executive*)  
 Mr. J. B. Raishbrook

#### DIRECTORS’ INTERESTS

The directors’ participations in the premium income capacity of the 2003 year of account of the syndicate either through Scottish Limited Partnership or limited liability companies are as follows:

	2003 YEAR OF ACCOUNT £
Mr. J. S. Barber	153,000
Mr. C. F. Palmer	493,000

Mr. J.D. Robinson, Mr. D.R. Burchett and Mr. M.I. Daly are shareholders of Omega Underwriting Holdings PLC and, as such, are underwriting through the wholly-owned dedicated vehicle, Omega Dedicated Limited.

The total capacity of the 2003 year of account of the syndicate was £153.7m.

#### CHANGE IN REPORTING BASIS

The underwriting results are determined on the annual basis of accounting. This represents a fundamental change in reporting basis required by the 2004 Regulations. Previously, results were not determined before the normal date of closure of each year of account at the end of the third year.

Further details regarding the effect of this change are given in notes 2 and 5 to the accounts.

#### AUDITORS

The managing agent intends to reappoint Ernst & Young LLP as the syndicate’s auditors.

By order of the Board

**Secretary**

London

23 March 2006

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 require the managing agent to prepare syndicate annual accounts at 31 December each year which 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, subject to changes arising on the adoption of new accounting standards in the year;
2. make judgements and estimates that are reasonable and prudent; and
3. prepare the financial statements 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 2004 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.

## INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SYNDICATE 958

We have audited the syndicate's annual accounts for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 20. 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 2004. 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

The managing agent is responsible for the preparation of the annual accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Managing Agent's Responsibilities.

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 and are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you if, in our opinion, the Report of the Directors of the Managing Agent is not consistent with the annual accounts, if the managing agent 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the syndicate's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004.

**Ernst & Young LLP**  
Registered Auditor  
London

23 March 2006

**PROFIT AND LOSS ACCOUNT:  
TECHNICAL ACCOUNT – GENERAL BUSINESS**  
FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	2005 £000	2004 (RESTATED) £000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	4	240,883	230,585
Outward reinsurance premiums		<u>(60,218)</u>	<u>(34,997)</u>
Net premiums written		180,665	195,588
 Change in the provision for unearned premiums:			
Gross amount		12,673	(10,325)
Reinsurers' share		<u>5,945</u>	<u>(9,696)</u>
Change in the net provision for unearned premiums		<u>18,618</u>	<u>(20,021)</u>
<b>Earned premiums, net of reinsurance</b>		199,283	175,567
<b>Allocated investment return transferred from the non-technical account</b>		3,369	1,703
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(134,343)	(72,868)
Reinsurers' share		<u>70,160</u>	<u>27,738</u>
Net claims paid		<u>(64,183)</u>	<u>(45,130)</u>
 Change in the provision for claims			
Gross amount		(182,190)	(49,987)
Reinsurers' share		<u>117,925</u>	<u>6,916</u>
Change in the net provision for claims		<u>(64,265)</u>	<u>(43,071)</u>
<b>Claims incurred, net of reinsurance</b>		(128,448)	(88,201)
<b>Net operating expenses</b>	7, 4	<u>(60,727)</u>	<u>(72,481)</u>
<b>Balance on the technical account for general business</b>		<u>13,477</u>	<u>16,588</u>

All operations are continuing.

## PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	2005 £000	2004 (RESTATED) £000
Balance on the general business technical account		13,477	16,588
Investment income	10	3,376	1,789
Unrealised gains on investments		75	–
Investment expenses and charges	10	(82)	(86)
Allocated investment return transferred to general business technical account		<u>(3,369)</u>	<u>(1,703)</u>
Profit for the financial year		<u>13,477</u>	<u>16,588</u>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	NOTES	2005 £000	2004 (RESTATED) £000
Profit for the financial year		13,477	16,588
Prior year adjustment	5	<u>(120,847)</u>	–
Total recognised gains and losses since last annual report		<u>(107,370)</u>	<u>16,588</u>

**BALANCE SHEET – ASSETS**  
AT 31 DECEMBER 2005

	NOTES	£000	2005 £000	£000	2004 (RESTATED) £000
<b>Investments</b>					
Financial investments	11		133,284		84,480
Deposits with ceding undertakings			867		565
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		8,447		2,130	
Claims outstanding	6	161,334		34,343	
			169,781		36,473
<b>Debtors</b>					
Debtors arising out of direct insurance operations	12	75,669		73,801	
Debtors arising out of reinsurance operations	12	46,892		24,270	
Other debtors		2,011		1,311	
			124,572		99,382
<b>Other assets</b>					
Cash at bank and in hand			41,470		34,070
Other	13		16,647		10,885
<b>Prepayments and accrued income</b>					
Accrued interest		198		129	
Deferred acquisition costs		20,869		17,965	
Other prepayments and accrued income		136		134	
			21,203		18,228
<b>Total assets</b>			<u>507,824</u>		<u>284,083</u>

**BALANCE SHEET – LIABILITIES**

AT 31 DECEMBER 2005

	NOTES	£000	2005 £000	£000	2004 (RESTATED) £000
<b>Capital and reserves</b>					
Members' balances	14, 20		23,734		26,520
<b>Technical provisions</b>					
Provision for unearned premiums		73,163		79,753	
Claims outstanding	6	<u>349,349</u>		<u>145,671</u>	
			422,512		225,424
<b>Creditors</b>					
Creditors arising out of direct insurance operations	15	14,187		334	
Creditors arising out of reinsurance operations	15	36,393		21,159	
Other creditors		<u>5,761</u>		<u>10,341</u>	
			56,341		31,834
<b>Accruals and deferred income</b>					
			<u>5,237</u>		<u>305</u>
<b>Total liabilities</b>			<u>507,824</u>		<u>284,083</u>

The financial statements on pages 6 to 20 were approved by the Board of Omega Underwriting Agents Ltd on 23 March 2006 and were signed on its behalf by

M.I. Daly  
23 March 2006

**STATEMENT OF CASH FLOW**  
FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	2005 £000	2004 (RESTATED) £000
Net cash inflow from operating activities	16	66,420	53,843
Transfer to members in respect of underwriting participations		(14,626)	(5,062)
<b>Financing:</b>			
From members		–	(36)
Reduction in overdraft		(4)	–
	17	<u>51,790</u>	<u>48,745</u>
<b>Cash flows were invested as follows:</b>			
Increase in cash holdings	17	6,570	14,026
Increase in deposits		6,388	2,142
Net portfolio investment	18	<u>38,832</u>	<u>32,577</u>
<b>Net investment of cash flows</b>		<u>51,790</u>	<u>48,745</u>

## NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2005

### 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, 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 by the Association of British Insurers.

### 2. CHANGE IN REPORTING BASIS

The result for the year is determined on the annual basis of accounting in accordance with UK GAAP. This represents a fundamental change in reporting basis required by the introduction of the 2004 Regulations rather than a series of changes in accounting policies. The prior year figures have been restated and the impact of the change in reporting basis is given in note 5.

### 3. ACCOUNTING POLICIES

#### PREMIUMS WRITTEN

Premiums written comprise premiums on contracts incepted 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.

#### 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. Unearned premium reserves and deferred acquisition costs have been treated as non-monetary items.

Exchange differences 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 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.

**3. 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. This does not become payable until after the appropriate year of account closes, normally at 36 months.

**4. SEGMENTAL ANALYSIS**

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

2005	GROSS WRITTEN PREMIUMS £000	GROSS PREMIUMS EARNED £000	GROSS CLAIMS INCURRED £000	NET OPERATING EXPENSES £000	RE-INSURANCE BALANCE £000	TOTAL £000	TECHNICAL PROVISIONS £000	COMMISSIONS ON GROSS PREMIUMS EARNED £000
<b>Direct insurance:</b>								
Accident and health	3,293	3,409	(2,205)	(829)	(37)	338	(3,113)	
Motor (third party liability)	506	1,370	(973)	(372)	(22)	3	(2,266)	
Motor (other classes)	7,908	7,533	(4,961)	(1,754)	(35)	783	(9,634)	
Marine aviation and transport	24,703	27,004	(17,256)	(6,450)	(369)	2,929	(25,785)	
Fire and other damage to property	34,128	29,236	(26,429)	(7,034)	5,486	1,259	(33,429)	
Third party liability	22,901	21,092	(13,459)	(5,053)	(561)	2,019	(45,245)	
Miscellaneous	2,920	2,207	(1,402)	(527)	22	300	(2,061)	
	96,359	91,851	(66,685)	(22,019)	4,484	7,631	(121,533)	21,089
<b>Reinsurance</b>	<b>144,524</b>	<b>161,705</b>	<b>(249,848)</b>	<b>(38,708)</b>	<b>129,329</b>	<b>2,478</b>	<b>(131,198)</b>	
<b>Total</b>	<b>240,883</b>	<b>253,556</b>	<b>(316,533)</b>	<b>(60,727)</b>	<b>133,813</b>	<b>10,109</b>	<b>(252,731)</b>	

2004 (RESTATED)	GROSS WRITTEN PREMIUMS £000	GROSS PREMIUMS EARNED £000	GROSS CLAIMS INCURRED £000	NET OPERATING EXPENSES £000	RE-INSURANCE BALANCE £000	TOTAL £000	TECHNICAL PROVISIONS £000	COMMISSIONS ON GROSS PREMIUMS EARNED £000
<b>Direct insurance:</b>								
Accident and health	5,637	5,385	(3,858)	(1,772)	(247)	(492)	(4,942)	
Motor (third party liability)	1,125	1,075	(185)	(354)	(8)	528	(529)	
Motor (other classes)	4,039	3,858	(6,372)	(1,270)	123	(3,661)	(14,586)	
Marine aviation and transport	16,451	15,713	(9,265)	(5,170)	(80)	1,198	(20,135)	
Fire and other damage to property	40,164	38,365	(21,347)	(12,625)	(3,644)	749	(49,020)	
Third party liability	32,620	31,160	(12,500)	(10,254)	(48)	8,358	(40,487)	
Miscellaneous	2,527	2,414	(1,581)	(794)	(84)	(45)	(4,760)	
	102,563	97,970	(55,108)	(32,239)	(3,988)	6,635	(134,459)	22,494
<b>Reinsurance</b>	<b>128,022</b>	<b>122,290</b>	<b>(67,747)</b>	<b>(40,242)</b>	<b>(6,051)</b>	<b>8,250</b>	<b>(54,493)</b>	
<b>Total</b>	<b>230,585</b>	<b>220,260</b>	<b>(122,855)</b>	<b>(72,481)</b>	<b>(10,039)</b>	<b>14,885</b>	<b>(188,952)</b>	

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2005 £000	2004 (RESTATED) £000
UK	31,211	31,595
Other EU countries	39,624	32,738
US	142,779	136,000
Other	27,269	30,252
<b>Total</b>	<b>240,883</b>	<b>230,585</b>

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

AT 31 DECEMBER 2005

**5. CHANGE IN REPORTING BASIS**

As set out in note 2, these accounts are determined on the annual basis of accounting. Prior to 1 January 2005, the syndicate accounts were prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No 18 of 1994). Syndicate results were reported on the three year basis whereby each underwriting year of account was normally kept open for three years. The result was ascertained at the end of the third year when the year of account was closed by reinsurance, normally to the syndicate's following year of account. Under the three year basis, premiums were recognised on a cash basis, net of brokerage, and no technical provisions were made on open years.

This change represents a significant change in the reporting basis rather than a series of changes of accounting policies. Comparative amounts for 2004 have been restated. Because of fundamental differences in the two bases of reporting, it is not considered practicable, or indeed meaningful, to identify the effects of the change on the results for the current or prior year.

The net effect of the change is reflected as a prior year adjustment to members' balances shown in note 14. A reconciliation of members' balances at 31 December 2004 to those published under the previous reporting basis is as follows:

	<u>2004</u> <u>£000</u>	
<b>Members' balances under previous basis</b>	147,367	
Annual accounting adjustments arising from:		Explanation of adjustments:
Premiums	(66,239)	Premiums on earned basis rather than cash basis on open years; Premiums gross of acquisition costs.
Claims	(86,677)	Provision for claims incurred on open years of account.
Expenses	(75,759)	Expenses include acquisition costs.
Reinsurance to close	(24,650)	RITC between years not shown on a grossed-up basis in annual accounts.
	<u>(120,847)</u>	
<b>Members' balances restated under new basis</b>	<u>26,520</u>	

**6. CLAIMS OUTSTANDING**

A reassessment of the claims outstanding held at the previous year end has enabled a release of £1.4m from reserves.

**HURRICANES**

The storm costs of 2005 resulting from Katrina, Rita and Wilma are significant to the insurance industry and to Syndicate 958. Hurricane Katrina is estimated to be the costliest natural disaster on record. The reinsurance recoverables by the Syndicate from these events are accordingly also significant. The Syndicate's reinsurance credit quality is excellent and 100% of the total reinsurance recoveries requested have been received. We anticipate this to continue to be the case.

The approach to reserving these large event losses has been conducted using the same prudent methodologies as employed by the Syndicate for previous natural catastrophe losses and those resulting from WTC in 2001.

The estimated gross loss for Katrina is £139m (Non marine £119m ; Marine £20m). The combined aggregate gross loss for Rita and Wilma is £70.5m.

The aggregate net exposures of the 2005 hurricane losses to the syndicate are estimated to be £25.6m of which £2.2m falls on the 2004 year of account and £23.4m to the 2005 year of account.

AT 31 DECEMBER 2005

**7. NET OPERATING EXPENSES**

	<b>2005</b> <b>£000</b>	<b>2004</b> <b>(RESTATED)</b> <b>£000</b>
Acquisition costs	52,257	59,929
Change in deferred acquisition costs	(1,323)	(1,779)
Administrative expenses	13,521	12,513
(Profit)/loss on exchange	(3,728)	1,818
	<u>60,727</u>	<u>72,481</u>
Administrative expenses include:		
Auditors' remuneration		
Audit services	128	69
	<u>128</u>	<u>69</u>

Members' standard personal expenses are included within administrative expenses.

**8. STAFF NUMBERS AND COSTS**

All staff are employed by Omega Underwriting Holdings PLC. The following amounts were recharged to the syndicate in respect of salaries costs:

	<b>2005</b> <b>£000</b>	<b>2004</b> <b>(RESTATED)</b> <b>£000</b>
Wages and salaries	2,491	1,982
Social security costs	306	230
Other pension costs	213	152
	<u>3,010</u>	<u>2,364</u>

The average number of employees employed by the managing agency but working for the syndicate during the three years was as follows:

	<b>2005</b> <b>£000</b>	<b>2004</b> <b>£000</b>
Administration and finance	13	12
Underwriting	8	8
Claims	3	2
	<u>24</u>	<u>22</u>

**9. 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:

	<b>2005</b> <b>£000</b>	<b>2004</b> <b>(RESTATED)</b> <b>£000</b>
Fees	147	65
Emoluments	426	451
	<u>573</u>	<u>516</u>

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

Emoluments	<u>206</u>	<u>200</u>
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**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

AT 31 DECEMBER 2005

**10. INVESTMENT RETURN**

	<b>2005</b> <b>£000</b>	<b>2004</b> <b>(RESTATED)</b> <b>£000</b>
Investment Income	5,515	3,549
Gains on the realisation of investments	41	209
Unrealised gains on investments	75	–
Losses on the realisation of investments	(1,355)	(1,969)
Unrealised losses on investments	(825)	–
Investment Expenses		
Investment Management Expenses	(82)	(86)
	<u>3,369</u>	<u>1,703</u>

**11. FINANCIAL INVESTMENTS**

	<b>MARKET VALUE</b>		<b>COST</b>	
	<b>2005</b> <b>£000</b>	<b>2004</b> <b>£000</b>	<b>2005</b> <b>£000</b>	<b>2004</b> <b>£000</b>
Debt securities and other fixed income securities	131,393	84,479	132,169	85,216
Other loans	1,890	–	1,890	–
Deposits with credit institutions	1	1	1	1
	<u>133,284</u>	<u>84,480</u>	<u>134,060</u>	<u>85,217</u>

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

**12. DEBTORS**

	<b>2005</b> <b>£000</b>	<b>2004</b> <b>£000</b>
Debtors arising out of direct insurance operations due within one year		
Due from intermediaries	75,669	73,801
Debtors arising out of reinsurance operations		
Due within one year	46,868	24,270
Due after one year	24	–
	<u>46,892</u>	<u>24,270</u>

**13. OTHER ASSETS**

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

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

AT 31 DECEMBER 2005

**14. RECONCILIATION OF MEMBERS' BALANCES**

	<u>2005</u> <u>£000</u>	<u>2004</u> <u>£000</u>
Members' balances brought forward at 1 January as previously stated	147,367	94,426
Prior year adjustment	(120,847)	(78,027)
Members' balances restated at 1 January	26,520	16,399
Profit for the financial year	13,477	16,588
(Payments of profit to)/collection of losses from members' personal reserve funds	(15,017)	(5,062)
Payment of members' agents' fees	(1,246)	(1,405)
Members' balances carried forward at 31 December	<u>23,734</u>	<u>26,520</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.

**15. CREDITORS**

	<u>2005</u> <u>£000</u>	<u>2004</u> <u>£000</u>
Due within one year		
Arising out of direct insurance operations		
Intermediaries	14,187	334
Arising out of reinsurance operations		
Due within one year	36,374	21,159
Due after one year	19	–
	<u>36,393</u>	<u>21,159</u>

**16. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	<u>2005</u> <u>£000</u>	<u>2004</u> <u>(RESTATED)</u> <u>£000</u>
Operating profit on ordinary activities	13,477	16,588
Realised and unrealised investments (gains)/losses	(10,474)	5,442
Decrease in net technical provisions	63,779	54,733
(Increase) in debtors	(29,801)	(29,400)
Increase in creditors	29,439	6,480
Net cash inflow from operating activities	<u>66,420</u>	<u>53,843</u>

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

AT 31 DECEMBER 2005

**17. MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING**

	<b>2005</b> <b>£000</b>	<b>2004</b> <b>(RESTATED)</b> <b>£000</b>
Net cash inflow from the year	6,570	14,026
Cash flow Increase in overseas deposits	4,374	1,731
Portfolio investments	40,932	32,906
Movement arising from cash flows	51,876	48,663
Changes in market value and exchange rates	10,474	(5,442)
Total movement in portfolio investments	62,350	43,221
Portfolio at 1 January	129,918	86,697
Portfolio at 31 December	192,268	129,918

**MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING**

	<b>AT</b> <b>1 JANUARY</b> <b>2005</b> <b>£000</b>	<b>CASH</b> <b>FLOW</b> <b>£000</b>	<b>CHANGES TO</b> <b>MARKET</b> <b>VALUE AND</b> <b>CURRENCIES</b> <b>£000</b>	<b>AT</b> <b>31 DECEMBER</b> <b>2005</b> <b>£000</b>
Cash at bank and in hand	34,070	6,570	830	41,470
Overseas deposits	10,885	4,374	1,388	16,647
Portfolio investments:				
Debt securities and other fixed Income securities	84,479	38,832	8,082	131,393
Other loans	–	1,786	104	1,890
Deposits with credit institutions	1	–	–	1
Deposits with ceding undertakings	565	228	74	867
Total portfolio investments	85,045	40,846	8,260	134,151
Amounts owed to credit institutions	(82)	86	(4)	–
Total cash, portfolio investments and financing	129,918	51,876	10,474	192,268

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

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

AT 31 DECEMBER 2005

**18. NET CASH OUTFLOW ON PORTFOLIO INVESTMENTS**

	<b>2005</b>	<b>2004</b>
	<b>£000</b>	<b>(RESTATED)</b>
	<b>£000</b>	<b>£000</b>
Purchase of debt securities and other fixed income securities	(379,071)	(207,856)
Sale of debt securities and other fixed income securities	340,239	175,279
Net cash inflow/(outflow) on portfolio investments	<u>(38,832)</u>	<u>(32,577)</u>

**19. RELATED PARTIES**

Profit commission of £3,338,000 is payable by the syndicate to Omega Underwriting Agents Limited in respect of profits for the 2005 calendar year (2004 - £4,200,000). Profit commission is not actually paid until the year of account is closed after three years.

Managing agency fees of £1,680,000 were paid by the syndicate to Omega Underwriting Agents Limited. In addition to this, expenses of £3,497,000 were paid by Omega Underwriting Agents Limited on behalf of the syndicate and were recharged to the syndicate.

**20. FUNDS AT LLOYD'S**

Every member is required to hold capital at Lloyd's 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.

