



OMEGA

Syndicate Annual Accounts

FOR THE YEAR ENDED 31 DECEMBER 2007

SYNDICATE 958

OMEGA UNDERWRITING AGENTS

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DIRECTORS AND ADMINISTRATION

MANAGING AGENT

Omega Underwriting Agents Limited

DIRECTORS

Mr. A. J. Adie
Mr. J. S. Barber (non-executive)
Mr. D. R. Burchett (*resigned 26 February 2008*)
Mr. M. I. Daly
Ms. N. J. Davies
Mr. R. B. Morgan (non-executive chairman)
Mr. J. F. Powell (non-executive)
Mr. J. B. Raishbrook
Mr. J. D. Robinson

COMPANY SECRETARY

Mr. A. D. Smith

MANAGING AGENT'S REGISTERED OFFICE

4th Floor
New London House
6 London Street
London
EC3R 7LP
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

AllianceBernstein Institutional Investments
50 Berkeley Street
London
W1J 8HA

REGISTERED AUDITORS

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

SOLICITORS

Dewey & LeBoeuf
No. 1 Minster Court
Mincing Lane
London
EC3R 7AA

The directors of the managing agent present their report for the year ended 31 December 2007.

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 2005 account will be made available to the syndicate members.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

2007 was another busy year within the Omega Group, with activity focusing on consolidation following the considerable and beneficial changes effected over the two previous years. The OUAL Board seeks to ensure that the underwriting function continues to be enhanced, and its success in this regard is demonstrated by the Syndicate's continued profitability.

2005 ACCOUNT

As previously reported, the main determinant of the 2005 underwriting result has been the number and severity of hurricanes experienced in this year, namely Katrina, Rita and Wilma. Katrina and its potential ongoing effects are discussed in more detail below, but if hurricane activity is removed, the underlying account has performed very well. This, coupled with a very healthy gross to net position on the hurricanes, has produced a profit of 8.78% on stamp capacity. This can be broken down into a pure year profit of £17,136k (7.65%) and a surplus on the reserves for the 2004 and prior year producing £2,530k (1.13%) profit.

It is with regret, however, that you will note from the comments made under "The Future" below that two benign windstorm seasons in 2006 and 2007 have had the unfortunate effect of dulling the minds of those for whom Katrina was a timely reminder of the volatility of insurance business.

The effects of Katrina are also, potentially, yet to be fully felt. Since Katrina occurred, the Board has been mindful of the potential political and legal

consequences of a storm that destroyed the social fabric of large areas of southern Louisiana and Mississippi and thus the Board has been monitoring the position closely. There are several ongoing class actions (principally in the State of Louisiana but the Board is also conscious of the fact that the Statute of Limitations regarding Katrina related events does not expire in Mississippi until August 2008) which could have direct consequences for insurers' incurred loss positions arising from Katrina. These litigations go to the core of insurance fundamentals such as the application of the standard ISO flood exclusion clause on homeowners' policies. In addition, the State of Louisiana, which has made grants available to its citizens totalling in excess of \$5bn to assist them to rebuild their homes, is seeking to recover these monies, in part, from insurers. Due to the uncertainty that this causes, until such time as these litigations are resolved, which could take some years, the Board has taken the view that it is necessary to put in place a reserve of \$25m.

2006 ACCOUNT

As previously indicated, hardening premium rates, coupled with benign catastrophe exposure, continue to point to this being an excellent year. As a result, the profit forecast range has been narrowed from 12.5% to 20% to 14% to 19%.

2007 ACCOUNT

Rates, terms and conditions in the classes underwritten by the Syndicate have continued to hold up during the course of 2007 which indicate that it will be another good year. A word of caution however; although 2007 saw another benign windstorm season in the USA, the year is still exposed to the possibility of catastrophic events such as a US earthquake, which could have a detrimental effect on the overall result.

2007 saw the addition of the new energy insurance account and it is pleasing to be able to report that it is developing in accordance with expectations.

The introduction of the energy account was made possible by a whole account qualifying quota share (QQS) which increased the capacity for 2007 from £250m to £275m. This quota share was placed 100% with Omega Specialty Insurance Company Ltd. (OSIL).

In total, for 2007, including the QQS referred to above, OSIL provided whole account quota share protection at a level of 27.50% for the Syndicate, at terms that were unavailable in the open market. As was made clear in last year's report and accounts, the availability of appropriate retrocessional reinsurance protection was and still remains scarce, and as a consequence, the Syndicate derived significant benefit from being able to purchase coverage from OSIL. Without this capacity being available, the Syndicate would have had to significantly reduce its aggregates in catastrophe zones, which would have resulted in not renewing business emanating from long standing accounts. The 27.5% quota share has enabled the Syndicate to preserve these accounts at very good terms.

THE FUTURE

As predicted in the commentary to the 2006 report and accounts, the combination of short memories, the lack of any significant hurricane activity over the course of 2006 and 2007, and the drive from many Bermudian insurers and reinsurers to diversify their portfolios in order to improve the chances of an upgrade from the rating agencies, has resulted in further softening of rates.

This was anticipated by the Board in its planning process for 2008, hence the de-emption in real terms from £275m (including the QQS) for 2007 back down to £250m for 2008. Some of this reduction was brought about by the weakening dollar, but also a realisation that market conditions in certain areas would deteriorate.

The Syndicate is prepared for this downturn. It has maintained its traditional approach of writing mainly low premium value business on its direct

account, and small to medium sized insurers on its reinsurance account, neither of which attract the level of competition associated with "big ticket" business. Moreover, the Syndicate will not abandon its philosophy of reducing income further in 2008 if underwriting conditions dictate.

Perversely, despite being faced with potentially deteriorating conditions on the inwards book of business, reinsurance conditions have not improved significantly and, as a consequence, the Syndicate has renewed its whole account quota share reinsurance with OSIL, again at advantageous terms, but at the lower level of 20%. Against this background the Syndicate will continue to review its position and, where necessary, will reduce aggregates to stay within the Syndicate's overall risk appetite.

RESULTS

The result for calendar year 2007 is a profit of £40.0m (2006 - £37.2m). 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:

	2007 £000	2006 £000	CHANGE
Gross written premiums	281,834	251,497	+12%
Profit for the financial year	39,981	37,217	+7%
Combined ratio	85%	85%	

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 earned.

The Syndicate's stamp capacity for 2007 was increased to £275m, an increase of 10% over 2006 (£250m) by way of a qualifying quota share.

This was placed 100% with Omega Specialty Insurance Company Limited in order to accommodate the new energy account, which

commenced underwriting in March 2007. Gross written premiums for 2007 have increased by 12% over 2006 and the Syndicate's combined ratio has remained unchanged at 85%. 2007 was much like 2006 in that it was a year that saw few major catastrophes.

	2007 £000	2006 £000	CHANGE
Investment return	14,081	9,003	+56%

The Syndicate's continued conservatism towards the investment markets meant that it was well placed when anxieties over the sub-prime mortgage market triggered a widespread flight to quality. Moreover, the Syndicate's strategy has been further tightened in the wake of the sub-prime debacle and, at the year end, more than 60% of the portfolio was invested in US Government or Agency debt.

Overall, the issues outlined above have contributed to the increase in profit for the financial year from £37,217k to £39,981k.

RISK MANAGEMENT STATEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

The overall risk appetite of the Syndicate is reviewed on an annual basis by the Board as part of the annual business planning and capital assessment process.

Much of this work is supported by the risk register which has been developed by the Board under the stewardship of the Compliance and Risk Management Committee. The risk register documents the key risks to the organisation and the controls that are in operation to monitor and/or reduce these risks. The register is regularly refreshed to take account of the changing environment from both an underwriting and non-underwriting perspective. The principal risks and uncertainties facing the Syndicate are as follows:

INSURANCE RISK

This is defined as "the risk of loss arising from inherent uncertainties as to the occurrence,

amount and timing of insurance liabilities".

This, therefore, includes both underwriting and reserving risk. Given that insurance underwriting is the principal activity of the Syndicate, this is, of course, the main risk to the business.

The Board agrees its appetite for underwriting risk through the development of the annual business plan. This sets out income expectations by class of business (given the rating environment that it is anticipated will prevail on a class by class basis), gross and net loss ratios on a class by class and whole account basis, line sizes and catastrophe exposures on a gross and net level. The Board will then monitor performance against the plan and its underlying assumptions and will take corrective action when and if considered necessary.

The Board reviews prior year reserve adequacy and ongoing reserve requirements on a continuing basis. It is assisted in this work by the Finance Committee and the Reserving and RITC Sub-Group, both of which take independent input from the Syndicate's actuaries, Milliman.

CREDIT RISK

The key risk to the Syndicate is default of one or more of its reinsurers. The Syndicate will only purchase reinsurance from companies that are AM Best rated A- or better. Moreover, it must be confident that the company will respond under stress conditions such as those experienced in the wake of the US hurricanes in 2004 and 2005. The Syndicate continues to have an excellent record in this regard, with no bad debt experienced on the material collections made on the 2004 and 2005 hurricane losses.

MARKET RISK

The key market risk arises from the investment of the funds held in the Syndicate's premium trust funds. The Syndicate is exposed to the potential for unanticipated changes in both UK and

international market and economic conditions, which could lead to capital losses. In addition, if the duration of assets is mismatched to liabilities when they fall due, then losses can arise.

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, a conservative strategy has been and will continue to be adopted in its approach to investment, so as to reduce the potential of jeopardising a positive underwriting return.

The Board delegates the oversight of its investment function to the Finance Committee, which takes independent advice from AllianceBernstein, who act as investment advisors and manage the portfolio.

The Syndicate has not experienced any losses from the “credit crunch” brought about by the sub-prime mortgage debacle in the US, due primarily to the conservative approach taken. Indeed, in the final quarter of 2007, the Finance Committee took the decision to further tighten its investment criteria which has strengthened its position in the current environment.

LIQUIDITY RISK

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, as a result of a shortfall in cash. The Finance Committee regularly reviews cashflow projections to guard against this risk. In addition, contingency arrangements are in place should difficulties be experienced, including the ability to call cash from its Syndicate members.

OPERATIONAL RISK

This is the risk that errors, caused by people and/or inadequate processes or systems, lead to the Syndicate experiencing losses. The main risk in this

regard is a failure in the Syndicate’s control framework. The Syndicate’s risk register, which details all of the current principal risks to the Syndicate, also identifies the key controls in response to these risks and the owners of those controls. The Compliance Officer regularly reviews these controls to ensure that they are operating effectively and in accordance with expectations.

REGULATORY RISK

Regulatory risk arises from the risk of loss arising from a breach of a regulatory requirement and/or failure to respond to regulatory change. This could lead to censure, fine and/or loss of the ability to trade in certain jurisdictions. The principal regulators to which the Syndicate has to report are the FSA and Lloyd’s (which in addition manages regulatory relations with overseas regulators in an endeavour to protect Lloyd’s international trading licences). The Compliance Officer monitors regulatory developments and ensures that the Syndicate responds accordingly.

GROUP RISK

This is the risk that the activities of one or more of the Omega Group companies outside of Omega Underwriting Agents Limited could have a prejudicial effect on the Syndicate. Such activities could have a direct financial effect through withdrawal of capital support for the Syndicate and/or an indirect effect through, for instance, a downgrade of rating. Whilst the Board has no reason to believe that such situations might arise, it is mindful of its responsibilities to all capital providers on the Syndicate. For this reason the Syndicate has its own AM Best rating independent of the Group. In addition, capital support for the Syndicate from Omega Dedicated Limited currently stands at 16.4% for 2008 which, if reduced or withdrawn entirely, would not threaten the ongoing viability of the Syndicate.

OMEGA GROUP

GROUP ACTIVITY

In the 2006 report and accounts, reference was made to the establishment of Omega US (OUS), which would underwrite a direct property account on a surplus lines basis in the US.

In May 2007, OUS was granted a licence to trade as an admitted insurer in Delaware, which also provided it with licences to trade in certain other states as a surplus lines insurer. In December 2007, following consideration of supporting information, AM Best awarded OUS an A- rating. In the wake of these developments, OUS commenced underwriting business on 1 January 2008. As previously stated, its business plan has been predicated on complementing the Syndicate's non-marine direct underwritings and benefits are already being derived from its operations in this regard.

OMEGA SPECIALTY INSURANCE COMPANY LTD. (OSIL)

For the 2006 and 2007 years, due to prevailing reinsurance conditions, the OUAL Board took the decision to place whole account quota share reinsurance protection for the Syndicate with OSIL. For 2006, the Syndicate ceded a 10% whole account quota share and for 2007, a 27.50% whole account quota share. The arrangements for 2007 were made up of a renewal of the 2006 10% quota share, a 10% whole account qualifying quota share (which was used to increase the Syndicate capacity for 2007 from £250m to £275m to accommodate the new energy account), and an additional 7.50% whole account quota share.

As is discussed above, for both the 2006 and 2007 years, the terms available through the OSIL arrangements were more beneficial than those on the open market, not least as they did not contain any event or occurrence limitations. The benefits derived by the Syndicate from these arrangements are commented upon in greater detail under the 2007 account review.

Given the foregoing, and due to the fact that the opportunities within the retrocessional open market have not improved, the Board has decided to renew the whole account quota share arrangement with OSIL for 2008, on the same terms as expiring, but at a reduced level of 20%.

SYNDICATE EXPENSES

Members will recall that in the 2006 report and accounts, it was explained that the Board of OUAL had decided that bonuses payable to the active underwriter and the executive directors of OUAL should be charged to the Syndicate. It had not previously been the policy of OUAL to charge bonuses on this basis. However, given recent structural changes within the Omega Group and the move by many of the Syndicate's competitors to awarding bonuses based upon annually accounted results, (which were more fully explained in the 2006 report and accounts), the Board decided that in order to incentivise existing staff adequately and to maintain parity with our competitors, it was necessary to change the policy such that bonuses payable would be charged as a Syndicate expense.

The Board has given further thought to this matter over the course of the last 12 months and has decided that this change will take effect for the 2008 and subsequent years of account. Members should note that the charging policy will be overseen by the non-executive directors of OUAL.

DIRECTORS

The Directors of the managing agent who served during the year ended 31 December 2007 were as follows:

Mr. J. D. Robinson (*active underwriter*)
Mr. A. J. Adie
Mr. J. S. Barber (*non-executive*)
Mr. D. R. Burchett (*resigned 26 February 2008*)
Mr. M. I. Daly
Ms. N. J. Davies
Mr. R. B. Morgan (*non-executive chairman*)
Mr. J. F. Powell (*non-executive*)
Mr. J. B. Raishbrook

DIRECTORS' INTERESTS

The directors' participations in the premium income capacity of the 2005 year of account of the Syndicate either through Scottish Limited Partnership or limited liability companies are as follows:

	2005 YEAR OF ACCOUNT £
Mr. J. S. Barber	150,000

Mr. J.D. Robinson, Mr. D.R. Burchett, Mr. M.I. Daly and Ms. N.J. Davies 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 2005 year of account of the syndicate was £224.0m.

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 reappoint Ernst & Young LLP as the Syndicate's auditors.

By order of the Board

A.J. Adie
Managing Director
London

20 March 2008

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;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. prepare the 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 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.

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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SYNDICATE 958

We have audited the syndicate's annual accounts for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement 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 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's responsibilities for the preparation of the annual accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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 have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. 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 other information contained in the syndicate's annual accounts. This other information comprises only the Report of the Directors of the

Managing Agent and the Calendar Year Investment Yield. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistency with the annual accounts. Our responsibilities do not extend to any other information.

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 2007 and of its profit for the year then ended;
- the annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the Report of the Directors of the Managing Agent is consistent with the annual accounts.

Ernst & Young LLP
Registered Auditor
London

20 March 2008

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

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	<u>£000</u>	<u>2007 £000</u>	<u>£000</u>	<u>2006 £000</u>
Earned premiums, net of reinsurance					
Gross premiums written	3		281,834		251,497
Outward reinsurance premiums			<u>(95,705)</u>		<u>(83,393)</u>
Net premiums written			186,129		168,104
Change in the provision for unearned premiums:					
Gross amount			(16,111)		1,580
Reinsurers' share			<u>5,833</u>		<u>15,023</u>
Change in the net provision for unearned premiums			<u>(10,278)</u>		<u>16,603</u>
Earned premiums, net of reinsurance			175,851		184,707
Allocated investment return transferred from the non-technical account			14,081		9,003
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(118,781)		(206,711)	
Reinsurers' share		<u>42,735</u>		<u>136,041</u>	
Net claims paid		<u>(76,046)</u>		<u>(70,670)</u>	
Change in the provision for claims					
Gross amount			7,772		62,215
Reinsurers' share		<u>(18,220)</u>		<u>(66,844)</u>	
Change in the net provision for claims		<u>(10,448)</u>		<u>(4,629)</u>	
Claims incurred, net of reinsurance			(86,494)		(75,299)
Net operating expenses	5		<u>(63,457)</u>		<u>(81,194)</u>
Balance on the technical account for general business			<u>39,981</u>		<u>37,217</u>

All operations are continuing.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Balance on the general business technical account		39,981	37,217
Investment income	8	10,188	9,399
Unrealised gains on investments		4,090	208
Investment expenses and charges	8	(197)	(604)
Allocated investment return transferred to general business technical account		<u>(14,081)</u>	<u>(9,003)</u>
Profit for the financial year		<u>39,981</u>	<u>37,217</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 2007

	NOTES	£000	2007 £000	£000	2006 £000
Investments					
Financial investments	9		240,278		202,103
Deposits with ceding undertakings			706		860
Reinsurers' share of technical provisions					
Provision for unearned premiums		27,841		22,008	
Claims outstanding	4	<u>61,238</u>		<u>80,169</u>	
			89,079		102,177
Debtors					
Debtors arising out of direct insurance operations	10	56,791		50,418	
Debtors arising out of reinsurance operations	10	35,821		38,932	
Other debtors		<u>1,060</u>		<u>960</u>	
			93,672		90,310
Other assets					
Cash at bank and in hand			35,015		30,238
Other	11		17,242		18,045
Prepayments and accrued income					
Accrued interest		667		569	
Deferred acquisition costs		<u>19,866</u>		<u>16,406</u>	
			20,533		16,975
Total assets			<u>496,525</u>		<u>460,708</u>

BALANCE SHEET – LIABILITIES

AT 31 DECEMBER 2007

	NOTES	<u>£000</u>	<u>2007</u> <u>£000</u>	<u>£000</u>	<u>2006</u> <u>£000</u>
Capital and reserves					
Members' balances	12, 18		73,518		62,666
Technical provisions					
Provision for unearned premiums		80,617		64,506	
Claims outstanding	4	<u>246,548</u>		<u>254,692</u>	
			327,165		319,198
Creditors					
Creditors arising out of direct insurance operations	13	31,708		23,584	
Creditors arising out of reinsurance operations	13	45,032		39,371	
Other creditors		<u>5,423</u>		<u>4,714</u>	
			82,163		67,669
Accruals and deferred income					
			<u>13,679</u>		<u>11,175</u>
Total liabilities					
			<u>496,525</u>		<u>460,708</u>

The financial statements on pages 10 to 23 were approved by the Board of Omega Underwriting Agents Ltd on 20 March 2008 and were signed on its behalf by

J.B. Raishbrook
20 March 2008



STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Net cash inflow from operating activities	14	64,651	83,155
Transfer to members in respect of underwriting participations		(27,682)	(12,326)
Financing:			
From members		18	15,285
Members' agents' fees paid on behalf of members		<u>(1,235)</u>	<u>(1,244)</u>
	15	<u>35,752</u>	<u>84,870</u>
Cash flows were invested as follows:			
Increase in cash holdings	15	14,686	(9,382)
Increase in deposits		3,841	5,385
Net portfolio investment	16	<u>17,225</u>	<u>88,867</u>
Net investment of cash flows		<u>35,752</u>	<u>84,870</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

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 (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.

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:

	GROSS WRITTEN PREMIUMS £000	GROSS EARNED PREMIUMS £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
2007								
Direct insurance:								
Accident and health	3,841	2,574	595	(872)	(179)	2,118	1,276	
Motor (third party liability)	318	66	(96)	(71)	(14)	(115)	(206)	
Motor (other classes)	1,643	1,336	(280)	(523)	144	677	(601)	
Marine aviation and transport	33,821	22,792	(10,241)	(5,689)	(3,138)	3,724	(21,965)	
Fire & other damage to property	55,074	43,760	(23,205)	(18,015)	(1,613)	927	(49,769)	
Third party liability	33,022	29,473	(12,002)	(12,488)	(677)	4,306	(25,741)	
Miscellaneous	3,164	2,977	(1,596)	(2,207)	445	(381)	(3,420)	
	<u>130,883</u>	<u>102,978</u>	<u>(46,825)</u>	<u>(39,865)</u>	<u>(5,032)</u>	<u>11,256</u>	<u>(100,426)</u>	<u>30,847</u>
Reinsurance	<u>150,951</u>	<u>162,745</u>	<u>(64,184)</u>	<u>(33,681)</u>	<u>(50,236)</u>	<u>14,644</u>	<u>(137,660)</u>	
Total	<u>281,834</u>	<u>265,723</u>	<u>(111,009)</u>	<u>(73,546)</u>	<u>(55,268)</u>	<u>25,900</u>	<u>(238,086)</u>	

	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
2006								
Direct insurance:								
Accident and health	2,411	2,427	(1,420)	(734)	(150)	123	(2,366)	
Motor (third party liability)	274	328	(216)	(114)	18	16	(681)	
Motor (other classes)	1,587	1,711	(1,132)	(553)	68	94	(3,027)	
Marine aviation and transport	7,701	7,661	(7,086)	(2,483)	2,684	776	(10,517)	
Fire and other damage to property	33,617	34,413	(18,400)	(13,647)	1,133	3,499	(26,970)	
Third party liability	25,686	24,803	(13,201)	(10,195)	(532)	875	(28,113)	
Miscellaneous	1,947	2,084	(1,211)	(846)	130	157	(1,698)	
	<u>73,223</u>	<u>73,427</u>	<u>(42,666)</u>	<u>(28,572)</u>	<u>3,351</u>	<u>5,540</u>	<u>(73,372)</u>	<u>20,058</u>
Reinsurance	<u>178,274</u>	<u>179,650</u>	<u>(101,830)</u>	<u>(52,622)</u>	<u>(2,524)</u>	<u>22,674</u>	<u>(143,649)</u>	
Total	<u>251,497</u>	<u>253,077</u>	<u>(144,496)</u>	<u>(81,194)</u>	<u>827</u>	<u>28,214</u>	<u>(217,021)</u>	

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2007 £000	2006 £000
UK	36,515	33,373
Other EU countries	28,022	33,790
US	182,343	154,518
Other	34,954	29,816
Total	<u>281,834</u>	<u>251,497</u>

4. CLAIMS OUTSTANDING

A reassessment of the claims outstanding held at the previous year end has enabled a release of £2.5m from reserves.

HURRICANES

As discussed in the Directors' Report, the storm costs of 2005 resulting from Katrina, Rita and Wilma are significant to the insurance industry and to Syndicate 958. During 2007, the Syndicate bolstered its reserves in respect of the 2005 hurricane losses. Most notably, in response to concerns regarding the legal and political position, principally in Louisiana, arising from the Katrina loss a further reserve of \$25m was established, recognising the potential for the loss to deteriorate.

The Syndicate's estimated gross loss for Katrina is \$277.0m (net \$49.0m) for Rita \$79.2m (net \$12.0m) and for Wilma it is \$83.2m (net \$12.0m). At 31 December 2007 gross incurred losses for Katrina, Rita and Wilma totalled \$250.5m, \$77.2m and \$81.2m respectively.

5. NET OPERATING EXPENSES

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Acquisition costs	60,940	46,086
Change in deferred acquisition costs	(3,460)	2,494
Administrative expenses	6,722	8,354
Members' personal expenses	11,788	14,977
(Profit)/loss on exchange	(2,444)	9,283
Reinsurers' commissions and profit participation	(10,089)	–
	<u>63,457</u>	<u>81,194</u>
Administrative expenses include:		
Auditors' remuneration		
Audit services	<u>249</u>	<u>217</u>
	<u>249</u>	<u>217</u>

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>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Wages and salaries	3,393	2,975
Social security costs	315	357
Other pension costs	335	279
Other	78	56
	<u>4,121</u>	<u>3,667</u>

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

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Administration and finance	13	14
Underwriting	14	10
Claims	<u>4</u>	<u>3</u>
	<u>31</u>	<u>27</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>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Emoluments	739	487

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

Emoluments	<u>180</u>	<u>165</u>
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8. INVESTMENT RETURN

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Investment income		
Income from investments	9,518	9,399
Gains on the realisation of investments	<u>670</u>	<u>–</u>
	10,188	9,399
Unrealised gains on investments	4,090	208
Investment Expenses and Charges		
Losses on the realisation of investments	–	<i>(374)</i>
Investment management expenses	<u>(197)</u>	<u>(230)</u>
	<i>(197)</i>	<i>(604)</i>
	<u>14,081</u>	<u>9,003</u>

9. FINANCIAL INVESTMENTS

	<u>MARKET VALUE</u>		<u>COST</u>	
	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Shares and other variable yield securities	8,147	–	8,147	–
Debt securities and other fixed income securities	224,105	198,768	219,629	199,370
Participation in investment pools	9	–	9	–
Other loans	–	3,334	–	3,334
Deposits with credit institutions	<u>8,017</u>	<u>1</u>	<u>8,017</u>	<u>1</u>
	<u>240,278</u>	<u>202,103</u>	<u>235,802</u>	<u>202,705</u>

Other loans comprise loans to the Lloyd's New Central Fund. 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; CICR and LATF sweep) and the Sterling AIM Global fund.

10. DEBTORS

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Debtors arising out of direct insurance operations		
Due from intermediaries within one year	56,677	50,418
Due from intermediaries after one year	114	–
	<u>56,791</u>	<u>50,418</u>
Debtors arising out of reinsurance operations		
Due within one year	35,801	38,899
Due after one year	20	33
	<u>35,821</u>	<u>38,932</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>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Members' balances brought forward at 1 January	62,666	23,734
Profit for the financial year	39,981	37,217
Cash call	–	15,306
Payments of profit to members' personal reserve funds	(27,894)	(12,347)
Payment of members' agents' fees	<u>(1,235)</u>	<u>(1,244)</u>
Members' balances carried forward at 31 December	<u>73,518</u>	<u>62,666</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>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Creditors arising out of direct insurance operations		
Due to intermediaries within one year	31,673	23,584
Due to intermediaries after one year	35	–
	<u>31,708</u>	<u>23,584</u>
Creditors arising out of reinsurance operations		
Due within one year	45,024	39,352
Due after one year	8	19
	<u>45,032</u>	<u>39,371</u>

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

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Operating profit on ordinary activities	39,981	37,217
Realised and unrealised investments (gains)/losses	(6,242)	25,892
Increase/(decrease) in net technical provisions	21,066	(35,710)
(Increase)/decrease in debtors	(7,152)	37,246
Increase in creditors	<u>16,998</u>	<u>17,266</u>
Net cash inflow from operating activities	<u>64,651</u>	<u>81,911</u>

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

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Net cash inflow from the year	14,686	(9,382)
Cash flow		
(Decrease)/increase in overseas deposits	(765)	3,503
Portfolio investments	<u>21,831</u>	<u>90,749</u>
Movement arising from cash flows	35,752	84,870
Changes in market value and exchange rates	<u>6,242</u>	<u>(25,892)</u>
Total movement in portfolio investments	41,994	58,978
Portfolio at 1 January	<u>251,246</u>	<u>192,268</u>
Portfolio at 31 December	<u>293,240</u>	<u>251,246</u>

MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	<u>AT</u> <u>1 JANUARY</u> <u>2007</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>2007</u> <u>£000</u>
Cash at bank and in hand	18,490	14,686	1,839	35,015
Overseas deposits	18,046	(765)	(39)	17,242
Portfolio investments:				
Shares and other variable yield securities	11,716	(3,423)	(146)	8,147
Debt securities and other fixed income securities	198,768	20,670	4,666	224,104
Participation in investment pools	32	(22)	0	10
Other loans	3,334	(3,267)	(67)	0
Deposits with credit institutions	1	8,016	0	8,017
Deposits with ceding undertakings	<u>859</u>	<u>(143)</u>	<u>(11)</u>	<u>705</u>
Total portfolio investments	214,710	21,831	4,442	240,983
Total cash, portfolio investments and financing	<u>251,246</u>	<u>35,752</u>	<u>6,242</u>	<u>293,240</u>

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

16. NET CASH OUTFLOW ON PORTFOLIO INVESTMENTS

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Purchase of debt securities and other fixed income securities	(276,124)	(364,368)
Sale of shares and other variable yield securities	3,423	-
Sale of debt and other fixed income securities	255,454	275,501
Sale of participations in investment pools	<u>22</u>	<u>-</u>
Net cash (outflow) on portfolio investments	(17,225)	(88,867)
Purchase of loans with credit institutions	3,267	-
Sale of loans with credit institutions	(8,016)	-
Sale of deposits with ceding undertakings	<u>143</u>	<u>-</u>
	<u>(21,831)</u>	<u>(88,867)</u>

17. RELATED PARTIES

Profit commission of £6,198,000 is payable by the Syndicate to Omega Underwriting Agents Limited in respect of profits for the 2007 calendar year (2006 - £9,380,000). 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 £1,864,000 were paid by the Syndicate to Omega Underwriting Agents Limited. In addition to this, expenses of £4,850,000 were paid by Omega Underwriting Agents Limited on behalf of the Syndicate and were recharged to the Syndicate.

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 placed three whole account quota share contracts with OSIL for the 2007 year of account totalling 27.5%. This provided the Syndicate with proportional reinsurance protection across its whole account on terms that the Board of OUAL believes were not available with 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 average overriding commission of 4.7% and a 20% profit commission on these arrangements.

During 2007, the Syndicate ceded £17.4m of net signed premium to OSIL and collected £3.7m in reinsurance recoveries. At 31 December 2007 the Syndicate owed OSIL £4.0m of net signed premiums and was due to recover £1.7m on paid claims, with a further £9.5m due on incurred claims.

Certain elements of the contracts between Syndicate 958 and OSIL are on a 'funds withheld' basis and are secured by Letters of Credit (LOCs). At 31 December 2007, the net amount owed by Syndicate 958 to OSIL on the funds withheld balance amounted to £20.8m and the standing LOCs totalled £31.25m.

AXIOM CONSULTING LIMITED

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

John Powell is a non-executive director of Omega Underwriting Agents Limited and formerly was an employee and director of Axiom Consulting Limited. During the period, Mr Powell was retained as a consultant by Axiom with the full knowledge and consent of the Board of OUAL. This arrangement was concluded in May 2007.

During the period, Syndicate 958 paid £183k to Axiom. No amounts were outstanding at the year end.

HARMAN WICKS & SWAYNE

Roger Morgan is the non-executive chairman of Omega Underwriting Agents Limited. Mr Morgan is also the non-executive chairman of Harman Wicks & Swayne, a Lloyd's broker which places business with Syndicate 958. Harman Wicks & Swayne placed business with Syndicate 958 to the value of £1.4m 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.



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

		2007 000'S
Average monthly syndicate funds	£	10,516
	US\$	409,026
	Can \$	41,070
	Euro	32,504
	Sterling Equivalent	260,910
Aggregate investment return for the year	£	464
	US\$	26,085
	Can \$	1,510
	Euro	1,067
	Sterling Equivalent	15,127
Calendar year investment yield	£	4.41%
	US\$	6.38%
	Can \$	3.68%
	Euro	3.28%
	Sterling Equivalent	5.80%

