

Omega Insurance Holdings Limited

Impact of International Financial Reporting Standards (IFRS)

Omega Insurance Holdings Limited, the international insurance and reinsurance group based in Bermuda, today publishes the impact of IFRS on its 2006 financial results and its operations.

From 2007 Omega Insurance Holdings Limited (“Omega”) is required to prepare consolidated financial statements in accordance with IFRS under the rules for companies listed on AIM, a market operated by the London Stock Exchange plc. Omega will prepare its first full year consolidated financial statements under IFRS for the year ending 31 December 2007 and will also issue interim consolidated results to 30 June 2007 under IFRS.

This announcement sets out the key changes to the income statement and the balance sheet under IFRS. The restated consolidated financial information for 2006 together with a special purpose audit report on the restatement is attached below.

The following is a summary of the impact of the transition from UK GAAP to IFRS on the 2006 financial results.

	UK GAAP	IFRS	Change	Change
	US\$'000	US\$'000	US\$'000	%
Gross written premium	115,619	115,619		
Net earned premium	66,972	67,085	113	0.2%
Profit before tax	22,035	22,589	554	2.5%
Profit after tax	15,102	15,491	389	2.6%
Earnings per share – basic (US\$)	0.12	0.12		
Earnings per share – diluted (US\$)	0.12	0.12		
Net assets	265,122	265,401	279	0.1%
Net assets per share (US\$)	1.80	1.80		
Net tangible assets	265,122	265,252	130	0.0%
Net tangible assets per share (US\$)	1.80	1.80		

The principal adjustments arising from transition relate to accounting for the fair value of derivative financial instruments, foreign exchange accounting for non-monetary items, and accounting for syndicate capacity. The transition to IFRS will not change the underlying operations or the actual cash flows of Omega.

A more detailed explanation of the impact of the transition to IFRS is given in the following pages.

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The material adjustments arising on the restatement from UK GAAP to IFRS and their impact on the 2006 financial results are explained in the following tables and accompanying notes.

Summarised reconciliation of the consolidated balance sheet between UK GAAP and IFRS as at 31 December 2006

	Notes	UK GAAP US\$'000	Adjustment on restatement to IFRS US\$'000	IFRS US\$'000
ASSETS				
Cash and cash equivalents		81,348		81,348
Financial investments	1, 2	223,090	196	223,286
Deferred acquisition costs	4	8,623	(53)	8,570
Reinsurance assets	4	61,654	(188)	61,466
Insurance receivables		15,688	-	15,688
Prepayments and accrued income		5,992	-	5,992
Other debtors		16,294	-	16,294
Current income tax assets		-	-	-
Deferred tax assets	5	860	(118)	742
Property and equipment		211	-	211
Intangible assets	3	-	149	149
Total assets		413,760	(14)	413,746
EQUITY				
Called up share capital		14,736	-	14,736
Share premium account	6c	247,418	223	247,641
Own shares		(98)	-	(98)
Foreign exchange reserve		1,162	-	1,162
Profit and loss account		1,904	56	1,960
Total equity and reserves		265,122	279	265,401
LIABILITIES				
Insurance contracts	4	103,454	(299)	103,155
Trade and other payables	4	38,514	6	38,520
Current income tax liabilities		1,629	-	1,629
Deferred tax liabilities		5,041	-	5,041
Total liabilities		148,638	(293)	148,345
Total liabilities and equity		413,760	(14)	413,746

Summarised reconciliation of the consolidated income statement between UK GAAP and IFRS for the year ended 31 December 2006

	Notes	US\$'000
Profit attributable to equity shareholders of the parent company reported under UK GAAP		15,102
Investment valuation	1	7
Derivative financial instrument	2	464
Reversal of amortisation of syndicate capacity	3	29
Foreign exchange movements	4	54
Net tax effect	5	(165)
Profit attributable to equity shareholders of the parent company reported under IFRS		15,491

Notes

1. Investments valuation

Under UK GAAP, the Group's listed investments were included in the 2005 balance sheet at mid-market value with all gains and losses reflected in the income statement. IAS 39 "Financial Instruments: Recognition and Measurement" requires the Group to value its investments using closing bid prices. The effect of this adjustment is a reduction in investments of US\$13,000 and a reduction in equity of US\$7,000 at the date of transition.

Under IFRS the Group's investments are classified as "fair value through profit and loss". Realised and unrealised gains and losses are included in the income statement in the period in which they arise.

2. Derivative financial instruments

The Group has entered into foreign exchange contracts in order to manage its exposure to movements in currency exchange rates. In accordance with IAS 39 these contracts have been valued at fair value and recognised in the balance sheet as financial investments or financial liabilities as appropriate. The effect of this adjustment is a reduction in equity of US\$268,000 at the date of transition and an increase in income of US\$464,000 during 2006.

3. Syndicate capacity

Under UK GAAP, the purchased syndicate capacity was amortised over an estimated useful life of 5 years.

In accordance with IAS 38 Intangible Assets, the useful life of the Group's recognised intangible asset has been reviewed on adoption of IFRS. Following this review it has been concluded that syndicate capacity has an indefinite useful life and so will no longer be amortised but will be subject to an at least annual impairment test. Syndicate capacity of US\$120,000 previously amortised has been reinstated on adoption of IFRS, as has the US\$29,000 amortised during 2006.

4. Foreign exchange

Under UK GAAP, unearned premium reserve, reinsurers' share of the unearned premium reserve and deferred acquisition costs that were recorded in separate currency ledgers

were translated into the Group's functional currency using the balance sheet rate of exchange.

IAS 21 "The effects of changes in foreign exchange rates" requires that non-monetary assets and liabilities are translated into the Group's functional currency of US\$ at the rate applicable on initial recognition and are not retranslated.

An element of the underwriting is supported by a financing agreement whereby the finance charge is directly related to the underwriting result. The foreign exchange underwriting adjustment is therefore partially offset by an adjustment in the servicing of finance expense.

The effect of these adjustments before tax is a reduction in equity of US\$2,000 at the date of transition and an increase in income of US\$54,000 for the year ended 31 December 2006.

5. Taxation

Current income tax was provided in the UK GAAP financial statements for amounts expected to be paid (or recovered) using the tax rates and laws that had been enacted or substantially enacted at the balance sheet date. The current tax numbers for the transition and 2006 balance sheet conversions from UK GAAP to IFRS are unchanged.

Under UK GAAP, provision is made for deferred tax assets and liabilities, using the liability method, that arise as a result of timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation.

Deferred tax assets and liabilities are recognised at the balance sheet date where transactions have occurred at the date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Under IAS 12 "Income taxes", deferred tax is provided, using the liability method, for all relevant temporary differences, being the difference between the carrying amount of an asset or liability in the balance sheet and its value for tax purposes. Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that future taxable profits will be utilised against unused tax losses and credits. IAS 12 explicitly states that deferred tax assets and liabilities shall not be discounted.

The net effect of the adjustment to the deferred tax asset is to increase equity by US\$47,000 at the date of transition and a decrease in income of US\$165,000 for the year ended 31 December 2006. This reflects the tax effect of the adjustments relating to investment valuation, syndicate capacity, recognition of derivative financial instruments, and foreign exchange. Omega has no circumstances that result in a different calculation of deferred tax resulting from application of the "temporary difference" approach in the IFRS compared with the "timing difference" approach in UK GAAP.

6. Other information

a) Functional currency

The functional currency used in the financial statements is US dollars, being the currency of the primary economic environment of the companies within the Group. The functional currency under UK GAAP changed to US dollars with effect from 1 January 2006 being both the date from which the Group retained a more substantial volume of the underwriting risk and the IFRS transition date. As permitted under IFRS 1 the foreign currency reserve is set at nil on transition.

b) Insurance Contracts

IFRS 4 “Insurance contracts” identifies circumstances in which contracts currently classified as insurance may no longer qualify as such under IFRS. Omega is satisfied that there are no contracts treated as insurance contracts under UK GAAP that require reclassification under IFRS 4.

c) Share premium account adjustment

As a result of the group reorganisation on 9 November 2006 reserves generated before that date are transferred via a merger reserve to the share premium account. IFRS adjustments and the relevant share of the foreign exchange adjustment generated prior to 9 November 2006 have been transferred to the share premium reserve in the same way.

Transition Statements

The following information is available on the Omega website www.omegauw.com

- Detailed reconciliation of the consolidated balance sheet as at 1 January 2006 from UK GAAP to IFRS
- Detailed reconciliation of the consolidated balance sheet as at 31 December 2006 from UK GAAP to IFRS
- Detailed reconciliation of the consolidated income statement for the year ended 31 December 2006 from UK GAAP to IFRS
- Consolidated statement of changes in equity for the year ended 31 December 2006
- Consolidated cash flow statement for the year ended 31 December 2006
- Accounting policies
- Special Purpose Audit Report to the Company by Ernst & Young LLP

Detailed reconciliations from UK GAAP to IFRS

The following tables show the detailed adjustments that have been made to the Group's UK GAAP balance sheets as at 1 January 2006 and 31 December 2006 and to the income statement for the year ended 31 December 2006.

**Detailed reconciliation of the consolidated balance sheet as at 1 January 2006 from
UK GAAP to IFRS**

	UK GAAP	Investment valuation	Derivative financial instruments	Syndicate capacity	Foreign currency	Tax	IFRS
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS							
Cash and cash equivalents	156,929						156,929
Financial investments	49,206	(13)					49,193
Deferred acquisition costs	4,663				25		4,688
Reinsurance assets	42,221				69		42,290
Insurance receivables	14,906						14,906
Prepayments and accrued income	4,960						4,960
Other debtors	12,790						12,790
Current income tax assets	-						-
Deferred tax assets	17					47	64
Property and equipment	83						83
Intangible assets	29			120			149
Total assets	285,804	(13)	-	120	94	47	286,052
EQUITY							
Called up share capital	10,392						10,392
Share premium account	170,471						170,471
Own shares	(127)						(127)
Profit and loss account	14,501	(7)	(268)	120	(2)	47	14,391
Total equity and reserves	195,237	(7)	(268)	120	(2)	47	195,127
LIABILITIES							
Insurance contracts	69,425				107		69,532
Financial liabilities	-		268				268
Trade and other payables	20,772	(6)			(11)		20,755
Current income tax liabilities	370						370
Deferred tax liabilities	-						-
Total liabilities	90,567	(6)	268	-	96	-	90,925
Total liabilities and equity	285,804	(13)	-	120	94	47	286,052

**Detailed reconciliation of the consolidated balance sheet as at 31 December 2006
from UK GAAP to IFRS**

	UK GAAP	Investment valuation	Derivative financial instruments	Syndicate capacity	Foreign currency	Other	Tax	IFRS
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS								
Cash and cash equivalents	81,348							81,348
Financial investments	223,090		196					223,286
Deferred acquisition costs	8,623				(53)			8,570
Reinsurance assets	61,654				(188)			61,466
Insurance receivables	15,688							15,688
Prepayments and accrued income	5,992							5,992
Other debtors	16,294							16,294
Current income tax assets	-							-
Deferred tax assets	860						(118)	742
Property and equipment	211							211
Intangible assets	-			149				149
Total assets	413,760	-	196	149	(241)	-	(118)	413,746
EQUITY								
Called up share capital	14,736							14,736
Share premium account	247,418					223		247,641
Own shares	(98)							(98)
Foreign exchange reserve	1,162					-		1,162
Profit and loss account	1,904		196	149	52	(223)	(118)	1,960
Total equity and reserves	265,122	-	196	149	52	-	(118)	265,401
LIABILITIES								
Insurance contracts	103,454				(299)			103,155
Trade and other payables	38,514				6			38,520
Current income tax liabilities	1,629							1,629
Deferred tax liabilities	5,041							5,041
Total liabilities	148,638	-	-	-	(293)	-	-	148,345
Total liabilities and equity	413,760	-	196	149	(241)	-	(118)	413,746

**Detailed reconciliation of the consolidated income statement for the year ended 31
December 2006 from UK GAAP to IFRS**

	UK GAAP	Investment valuation	Derivative financial instruments	Syndicate capacity	Foreign currency	IFRS
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Income						
Gross premiums written	115,619					115,619
Outward reinsurance premiums	(26,680)					(26,680)
Net premiums written	88,939	-	-	-	-	88,939
Change in gross provision for unearned premiums	(16,403)				406	(15,997)
Reinsurers share of change in the provision for unearned premiums	(5,564)				(293)	(5,857)
Net earned premium	66,972	-	-	-	113	67,085
Investment return	11,008	8	464			11,480
Other income	11,787					11,787
Net revenue	89,767	8	464	-	113	90,352
Expenses						
Insurance claims	(52,360)					(52,360)
Insurance claims recoverable from reinsurers	20,208					20,208
Net insurance claims	(32,152)	-	-	-	-	(32,152)
Net Acquisition costs	(15,448)				(56)	(15,504)
Other underwriting operating expenses	(5,224)					(5,224)
Other corporate expenses	(13,804)			29		(13,775)
Servicing of finance	(1,104)	(1)			(3)	(1,108)
Total expenses	(67,732)	(1)	-	29	(59)	(67,763)
Profit on ordinary activities before tax	22,035	7	464	29	54	22,589
Income tax	(6,933)	(2)	(139)	(9)	(15)	(7,098)
Total recognised profit for the year	15,102	5	325	20	39	15,491

Consolidated Statement of Changes in Equity for the year ended 31 December 2006

	Share capital	Share premium	Own shares	Merger reserve	Foreign exchange reserve	Profit and loss	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2006	10,392	170,471	(127)	-	-	14,391	195,127
Currency translation differences	-	-	-	-	5,166	-	5,166
Total income and expense for the year recognised directly in equity	-	-	-	-	5,166	-	5,166
Profit for the year	-	-	-	-	-	15,491	15,491
Total income and expense for the year	-	-	-	-	5,166	15,491	20,657
Vesting of own shares	-	-	42	-	-	(42)	-
Issue of new share capital	2,493	63,308	-	-	-	-	65,801
Costs of issue	-	(3,808)	-	-	-	-	(3,808)
Share based payments	-	-	-	-	-	2,158	2,158
Special interim dividend of 4.1 pence per ordinary share	-	-	-	-	-	(9,337)	(9,337)
Group reorganisation	(12,885)	(229,971)	85	-	-	242,771	-
Establishment of Omega Insurance Holdings Limited	14,736	393,329	(98)	(140,491)	(4,004)	(263,472)	-
Reorganisation and listing costs	-	(5,197)	-	-	-	-	(5,197)
Transfer of merger reserve	-	(140,491)	-	140,491	-	-	-
Balance at 31 December 2006	14,736	247,641	(98)	-	1,162	1,960	265,401

Consolidated Cash Flow Statement for the year ended 31 December 2006

		US\$'000
Cash generated from operations	Note (a)	47,399
Interest paid		(455)
Income tax paid		(1,547)
Net cash inflow from operating activities		45,397
Cash flow from investing activities		
Net purchase of investments		(173,900)
Purchase of tangible fixed assets		(193)
Net cash outflow from investing activities		(174,093)
Cash flows from financing activities		
Equity dividends paid		(9,337)
Issue of ordinary share capital		65,801
Costs of issue		(3,808)
Reorganisation and listing costs		(5,197)
Net cash inflow from financing activities		47,459
Net decrease in cash and cash equivalents		(81,237)
Cash and cash equivalents at start of year		156,929
Foreign exchange currency movements		5,656
Cash and cash equivalents at end of year		81,348

Note (a) – Cash generated from operations

	US\$'000
Operating profit before taxation	22,589
Adjustments for non cash items	
- Depreciation of tangible assets	69
- Realised and unrealised gains and losses	(461)
- Charge in relation to financing	1,104
- Foreign exchange adjustments	(423)
- Charge in relation to share option awards	2,158
Changes in operating assets and liabilities	
- (Increase) in deferred acquisition costs	(3,882)
- (Increase) in reinsurance assets	(19,176)
- (Increase) in insurance receivables	(782)
- (Increase) in prepayments and accrued income	(1,032)
- (Increase) in other debtors	(3,504)
- Increase in insurance payables	33,623
- Increase in trade and other payables	17,116
Cash generated from operations	47,399

OMEGA INSURANCE HOLDINGS LIMITED

IFRS ACCOUNTING POLICIES

Basis of Preparation

The purpose of this restatement is to provide comparative figures for the Group's first set of International Financial Reporting Standards ("IFRS") compliant financial statements for the year ended 31 December 2007.

The restated IFRS compliant opening balance sheet at 1 January 2006 (the date of transition) and comparative figures at 31 December 2006, and the reconciliations between UK GAAP and IFRS figures have been prepared by management using accounting policies that will be applied when the company prepares its first complete set of IFRS financial statements as at 31 December 2007. Under IFRS, only a complete set of financial statements, including all comparative financial information and explanatory notes, can provide a fair presentation of a company's financial position, accordingly this restatement cannot be described as being fully compliant with IFRS.

Basis of Consolidation

The consolidated accounts incorporate the accounts of Omega Insurance Holdings Limited and all its subsidiary undertakings ("the Group") drawn up to 31 December 2006. Omega Insurance Holdings Limited was formed in August 2006 and became the new parent company of the Group as a result of the Group reorganisation in November 2006. Figures at 1 January 2006 incorporate the accounts of the previous Group parent company, Omega Underwriting Holdings PLC, and all its subsidiary undertakings.

The Group's share of the transactions, assets and liabilities relating to its syndicate participation is included in the consolidated financial statements.

Inter-company transactions and balances between Group companies are eliminated.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The Group has taken advantage of the permitted exemption under IFRS 1 to treat cumulative translation differences for all foreign operations as zero at the date of transition, 1 January 2006.

Estimates and judgements

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Foreign currency translation

a) Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, the functional currency of the Company and the presentation currency of the Group.

b) Transactions and balances

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions or a suitable average rate. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on retranslation are included in the income statement. Non-monetary assets, being assets without a corresponding cash flow such as unearned premium reserves and deferred acquisition costs, are translated in the balance sheet at the exchange rate prevailing at the date of the original transaction.

c) Group companies

The results and financial position of Group entities which have a different functional currency are translated into the Group presentation currency as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date
- income and expenses are translated at average exchange rates

all resulting exchange differences are recognised in the statement of changes in equity.

Insurance contracts

a) Premiums

Written premiums comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Estimates are made for pipeline premiums, representing amounts due but not yet notified.

For delegated authority business estimates of how much business will attach to a facility is based on experience and information provided by the broker. Estimates are updated on a regular basis. It is assumed that risks attaching to the master facility incept evenly across the period of the facility and therefore only that proportion of risks that have incepted to the master facility by the balance sheet date are reported within written premium in these financial statements.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Written premiums are earned over the period of the policy on a time apportionment or more appropriate basis, having regard to the exposure of the risk.

b) 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.

c) Unearned Premiums

The provision for unearned premiums represents the proportion of gross written premium which is estimated to relate to exposures in subsequent financial periods. The change in the unearned premium provision is taken to income so that revenue is recognised in accordance with the period of risk.

d) Acquisition Costs

Acquisition costs, comprising commission and other costs related to the acquisition of insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date. Deferred acquisition costs are amortised over the period in which the related revenue is earned.

Claims

a) Claims incurred

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

b) Outstanding claims provisions

The provision for claims outstanding is made on an individual case basis and 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 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 uncertainty arises from projections, estimates may be based on assessments of the business accepted and underwriting conditions. The Group does not discount its liabilities for unpaid claims. Where applicable, deductions are made for salvage and other recoveries.

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.

The provision for claims outstanding is based on information available at the balance sheet date. Significant delays are experienced in notification and settlement of certain claims and accordingly the ultimate cost of

such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the income statement of later periods.

c) Liability adequacy test

Provision is made where the expected cost of claims and expenses arising after the end of the financial period from contracts concluded before that date exceeds the provision for unearned premiums, net of deferred acquisition costs, premiums receivable and related investment return. Expected claims are calculated having regard only to events that have occurred prior to the balance sheet date.

The provision is calculated by reference to classes of business which are managed together.

Investments

a) Financial assets at fair value through the income statement

The Group has classified its financial investments as "fair value through income" to the extent that they are not reported as cash and cash equivalents. This classification has been determined by management based on the decision at the time of acquisition and reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair value basis. The fair values of quoted financial investments are based on current bid prices. 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. Purchases and sales of investments are recognised on the trade date, which is the date the Group commits to purchase or sell the assets. These are initially recognised at fair value, and subsequently re-measured at fair value based on quoted bid prices. Investments are derecognised when they have been sold. Changes in the fair value of investments are included in the income statement in the period in which they arise.

b) Derivative financial instruments

The Group's activities expose it to fluctuations in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the income statement.

c) 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.

Realised gains and losses on investments 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 previously recognised unrealised gains and losses in respect of investments disposed of in the current year.

Other income

Other income comprises; agency fees, management fees and profit commission charged by the Group to third party members of Syndicate 958; and miscellaneous other income.

Agency fees are charged to a year of account and earned over four years until its expected closure, in line with the services provided. Other management fees are a recharge of expenses incurred and are recognised in the same period as the related expense.

Profit commission is receivable on closure of the relevant Lloyd's year of account, normally after three years. It is accrued during the second and third years of account when it is reasonably certain that further development will not result in its reversal.

Other expenses

Other underwriting operating expenses are recognised on an accruals basis. These comprise the expense directly attributable to the Group's underwriting operations such as acquisition costs, remuneration and other underwriting expenses. They include the Group's share of syndicate operating expenses and the costs of membership of Lloyd's. They are stated net of contributions from quota share reinsurers.

Other corporate expenses are recognised on an accruals basis. They comprise other group operating expenses not attributable to underwriting.

Employee benefits

a) Pension

The Group provides defined contribution pension schemes for the benefit of employees. Contributions are charged to the income statement in the same period as the related service is provided.

b) Share based payments

The Group operates a number of executive and employee share schemes. In accordance with IFRS 2 the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by a binomial model the material inputs of which are: share price at date of the grant; expected dividend yield; expected volatility; risk free interest rate; and employee turnover.

When the options are exercised, the proceeds received, net of transaction costs, are credited direct to equity.

Income taxes

The tax expense represents the sum of the current tax and deferred tax.

a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because items of income and expense are taxed in different periods, and it excludes items that are never taxable or deducted. The Group's liability for current tax is calculated using tax rates applicable as at the balance sheet date.

Current income tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the current tax is also dealt with in equity.

b) Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered, or to the extent that it has been utilised.

Deferred tax is calculated at the tax rates based on the enacted or substantially enacted tax laws expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the balance sheet.

For the purpose of the consolidated cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Fixtures and fittings – over 5 years

Computer hardware – over 3 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. A gain or loss arising on derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item. Any such gain or loss is recognised directly in the income statement.

Intangible assets - Syndicate participation

Syndicate capacity purchased at auction is recognised at cost. It is considered to have an indefinite useful economic life and is therefore not amortised.

Syndicate capacity is reviewed at each balance sheet date for impairment and the amount of any impairment is recognised directly in the income statement.

Insurance receivables

Insurance receivables are recognised and carried at the recoverable amount. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount is greater than the recoverable amount, with the impairment adjustment recorded in the income statement.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which is probable will result in an outflow of resources and when a reliable estimate of the amount of the obligation can be made.

Leases

Rentals payable under operating leases are taken to the profit and loss account on a straight line basis over the lease term.

Own Shares

Own shares are stated at cost and shown as a deduction from shareholders' funds. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the company's shares.

Independent Auditors' Report to Omega Insurance Holdings Limited on the preliminary IFRS consolidated balance sheet as at 1 January 2006 and preliminary IFRS financial statements for the year ended 31 December 2006

We have audited the accompanying preliminary opening IFRS Consolidated Balance Sheet of Omega Insurance Holdings Limited (“The Group”) as at 1 January 2006, (“the opening IFRS Consolidated Balance Sheet”) and the IFRS consolidated financial statements of the Group for the year ended 31 December 2006 which comprise the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and the consolidated cash flow statement (“the preliminary IFRS Financial Statements”), together with the related accounting policies.

This report is made solely to the Group in accordance with our engagement letter dated 26 June 2007. Our audit work has been undertaken so that we might state to the Group 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 or liability to anyone other than the Group for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of directors and auditors

These opening IFRS Consolidated Balance Sheet and preliminary IFRS Financial Statements are the responsibility of the Group's directors and have been prepared as part of the Group's conversion to IFRS. They have been prepared in accordance with the basis of preparation set out in the accounting policies note, which describes how IFRSs have been applied under IFRS 1, and the policies expected to be adopted, when the Group prepares its first complete set of IFRS consolidated financial statements as at 31 December 2007.

Our responsibility is to express an independent opinion on the opening IFRS Consolidated Balance Sheet and preliminary IFRS Financial Statements based on our audit. We read the other information accompanying the opening IFRS Consolidated Balance Sheet and preliminary IFRS Financial Statements and consider whether it is consistent with these statements. This other information comprises the basis of preparation of restated financial information and description of significant changes in accounting policies. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the opening IFRS Consolidated Balance Sheet and preliminary IFRS Financial Statements. 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. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS Consolidated Balance Sheet and the preliminary IFRS Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the opening IFRS Consolidated Balance Sheet and preliminary IFRS Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the

overall presentation of the opening IFRS Consolidated Balance Sheet and preliminary IFRS Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accompanying opening IFRS Consolidated Balance Sheet and preliminary IFRS Financial Statements have been prepared, in all material respects, in accordance with the basis of preparation set out in the accounting policies note, which describes how IFRSs have been applied under IFRS 1, and the policies expected to be adopted, when management prepares its first complete set of IFRS consolidation financial statements as at 31 December 2007.

Emphasis of matter

Without qualifying our opinion we draw attention to the fact that, under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, cash flow statement and complete explanatory notes together with comparative information can provide a fair presentation of the Group's financial position, results of operations and cash flows in accordance with IFRS.

Ernst & Young LLP

London

18 July 2007