Outlook

Edison investment research

12 January 2011

Omega Insurance Holdings

Year End	GWP ($m)	PBT* ($m)	tNAV* (c)	DPS (c)	P/tNAV (x)	Yield (%)
12/09	266	50.7	186	12.5	0.86	7.8
12/10e	354	(21.5)	165	12.5	0.97	7.8
12/11e	339	40.4	167	12.5	0.96	7.8
12/12e	375	42.8	170	12.5	0.94	7.8

Note: *PBT is normalised, excluding intangible amortisation and exceptional items; tNAV is tangible net assets per share. Share price converted at $1.550/£.

Investment summary: New focus

From its roots of successful Lloyd's syndicate management, Omega has built a multi-platform international insurance/reinsurance business, yet staying focused on its core areas of expertise. A record of underwriting discipline and a strong capital position are welcome while soft insurance pricing and low investment returns persist. The new, experienced management team is investing to better position the business for growth when the market turns, while simultaneously exploring options to improve return on capital. Notwithstanding some M&A speculation, the shares remain lowly valued in a lowly valued sector. We believe that share price performance will be driven by management's success in raising profitability versus peers.

New team moving forward

The new management team has been in place since March and its agenda is becoming clearer. It is investing in the business infrastructure to improve operational efficiency and better position Omega to grow when market conditions are right. We expect the selective and focused approach to underwriting to be maintained but maybe broadened. Investment management is receiving greater attention. But above all we look for improved returns from more active capital management.

Capital management

By maintaining underwriting discipline in this soft phase of the cycle, supported by the introduction of some modest gearing into a debt-free balance sheet, we see room for Omega to return capital and lift returns. As newer businesses mature we see further room for capital efficiency which can be used to fund growth or be repaid to shareholders as market conditions dictate.

Valuation: Discounting the cycle but not the changes

A 4% discount to tangible net assets (tNAV) is similar to peers. The sector is lowly valued because the cycle in pricing is weak and investment returns low and we cannot predict when this will change, though it will. Meanwhile we think Omega has the ability to create its own catalyst, closing the gap in return on capital versus peers to support valuation. Our 'fair value' is 120p or 1.1x 2011e tNAV.

Price	103p
Market Cap	£250m

Share price graph

Share details

Code	OIH
Listing	FULL
Sector	Non-life insurance
Shares in issue	243.5m

Price

52 week	High	Low
	125.0p	86.8p

Balance Sheet as at 30 June 2010

tNAV per share (c)	163
NAV per share (c)	183
Total assets ($m)	987

Business

Omega is an international insurance/reinsurance group, based in Bermuda and reporting in US dollars. It has operations in Bermuda, London, Chicago and Cologne. Its focus is on short-tail property insurance and reinsurance of medium-sized corporates and smaller insurance companies.

Valuation

	2009	2010e	2011e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Revenues by geography (2009)

UK	Europe	US	Other
11.6%	3.3%	77.9%	7.2%

Analysts
Martyn King +44 (0)20 3077 5700
Maana Ruia +44 (0)20 3077 5717
financials@edisoninvestmentresearch.co.uk

Omega Insurance Holdings is a research client of Edison Investment Research Limited

Investment summary: Strong pedigree

Company description: New focus

Omega is an international insurance and reinsurance group, based in Bermuda with operations in Bermuda, London, Chicago and Cologne. Its focus is on short-tail property insurance and reinsurance of medium-sized corporates and smaller insurance companies. It has a relatively short stock-market history, floating on AIM in 2005 and moving to the main market in 2009, but the company has been managing agent for Lloyd's syndicate 958 since it was launched in 1980, and has enjoyed an unbroken record of profitability.

Valuation: Focus on returns

We focus on sustainable returns on tangible net assets (RONTA), believing that higher returns over time will support higher dividend growth or reinvestment in tNAV. The key is sustainability and this is often incompatible with rapid growth. We believe that a combination of continued strong cycle management (growing at the right time) and improved capital management can lift RONTA for Omega and support a higher valuation. We have a fair value of 120p or 1.1x 2011e tNAV.

Sensitivities

As we discuss at length in our sector report, *Cliff edge or knife edge* (July 2010), the pricing of insurance is cyclical, claims costs are difficult to predict and can take a long time emerge with certainty, and investment returns are volatile. We are currently in a soft phase of the pricing cycle and investment returns are stubbornly low. The sector looks under-valued in recognition of these uncertainties but lacks a catalyst in the absence of change. Meanwhile, Omega does offer an attractive yield and some company-specific catalysts. There is too much capital in the industry, pressuring pricing, and somewhat paradoxically the industry requires some major losses ($50bn or so) to restore balance. We seek to reflect these factors in our forecasts, but would highlight the following key sensitivities:

- Premium levels may differ from our forecasts particularly if pricing trends differ from our expectations, making business more or less attractive to write. We expect group premiums to be lower in 2011, but assume that 2012 will see stronger pricing and growth.
- Underwriting profits – the difference between the premiums collected and the amounts paid out in claims costs and related expenses, defined as the combined ratio or COR, could be very different from our forecasts if pricing differs materially from our assumptions or, more likely, if claims are higher, perhaps because of a major event such as a hurricane. Expenses may also differ. Despite weak pricing we expect an improved COR in 2011 due to fewer very large losses and the non-repeat of reserve additions. A 1% shift in the cost of claims would impact 2011e RONTA by 0.7% and PBT by 8.5%.
- The actual cost of claims can take some years to establish and estimates must be made in setting reserves. A 1% shift in claims reserves would impact 2011e RONTA by 0.6% and PBT by 5.4%. Omega's 'short-tail' property risks (losses are known and settled sooner) carry much less reserve risk than 'longer-tail' casualty risks.
- We expect investment returns to decline further in 2011. A 1% shift in returns would impact 2011e RONTA by 1.4% and PBT by 16%.

Company description: New management focus

Since 2005 Omega has built an operationally and financially efficient international underwriting platform. The strategy has been logical, the business units are complementary, and it has remained focused on its areas of long-term expertise where it understands the underwriting and has distribution. Profitability has been respectable but the inevitable capital drag of newer operations and some conservatism in seizing underwriting and investment opportunities has dulled returns. There is evidence that the business infrastructure was lagging the growth of the business and these 'growing pains' led to considerable tensions in senior management; they fell out and shareholders revolted. Governance and management issues are now resolved and a new and highly experienced team is in place. Notwithstanding the currently weak insurance market we think it a very good time to consider the renewed focus and vigour that is apparent in the group, which could see a material improvement in performance versus peers.

The evolution of Omega

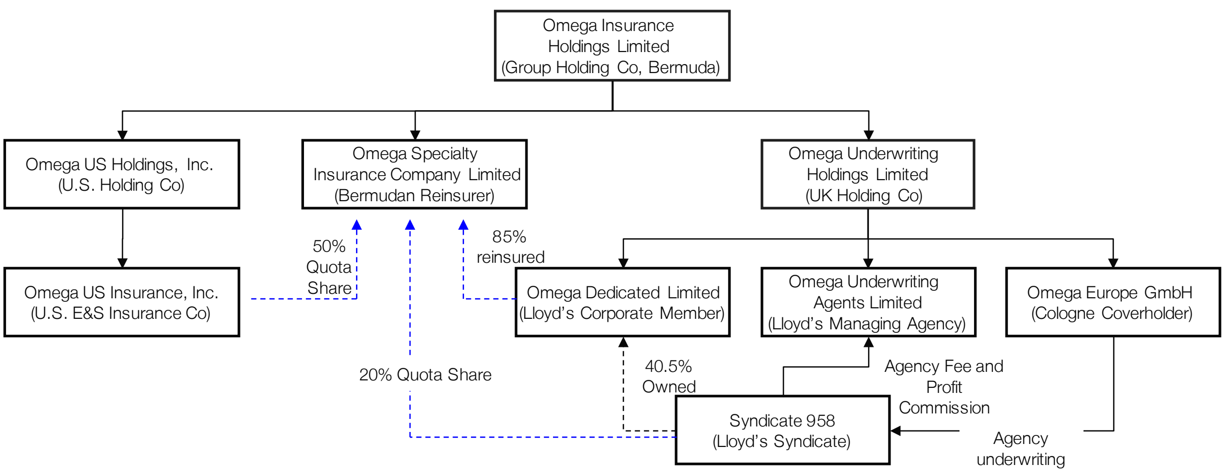
Omega has been managing agent of Lloyd's Syndicate 958 since it began underwriting in 1980. Since that time it has enjoyed an unusually strong record of unbroken profitability. In 2005, reflecting a general trend in the industry in part encouraged by Lloyd's earlier decision to allow corporate capital, it was decided to develop the business from a simple manager of third party capital to become an insurance and reinsurance company putting its own capital at risk in underwriting. The path taken by Omega has been to progressively increase its participation in the capital of the syndicate (continuing as managing agent for all of it), while building alternative but complementary shareholder owned platforms in Bermuda and the US. Increased participation in the syndicate gives exposure to a diversified set of insurance exposures with a strong track record that Omega knows well. The syndicate has always derived a substantial share of its business from the US, in particular relating to various types of property insurance and reinsurance. The US and Bermudan operations utilise this expertise by focusing on similar types of business, often from existing agent relationships, that for whatever reason would not be available to the syndicate in London. Omega floated on the AIM market in 2005 and joined the Main market in 2009. It took advantage of the strong pricing environment in property catastrophe insurance following hurricane Katrina later in 2005 to raise additional equity capital and establish Omega Specialty, its Bermudan reinsurance business. After establishing Omega US in 2006, with a majority of the business originating in the US and Bermuda, the group reorganised under a Bermudan holding company, a process completed in 2007. Bermuda offers a strong regulatory regime and a highly favourable tax environment.

In 2008 US hurricane losses were again high for the industry, while the value of their investment portfolios fell with the financial crisis. It seemed that 2009 would be another strong year for insurance pricing. Omega raised £124m in a share placing (at 140p) in January 2009 to take advantage. The year started well enough but recovering financial markets restored the value of insurance company's investment portfolios and its desire to increase prices petered out. Rather than grow for the sake of it, Omega decided the best way to deploy the capital was to increase its participation in the capital of the syndicate, diversified business it knows well, with a strong track record. It purchased 'capacity' from other syndicate capital providers, taking its share to 38.8% (increased again this year to 40.5%).

The Omega group today

Exhibit 1: Omega today

Dedicated Syndicate capacity has increased from 38.8% to 40.5% for the 2011 year of account



Together with quota shares, economic interest in the Syndicate will be 52.4% for 2011

Source: Omega Insurance Holdings

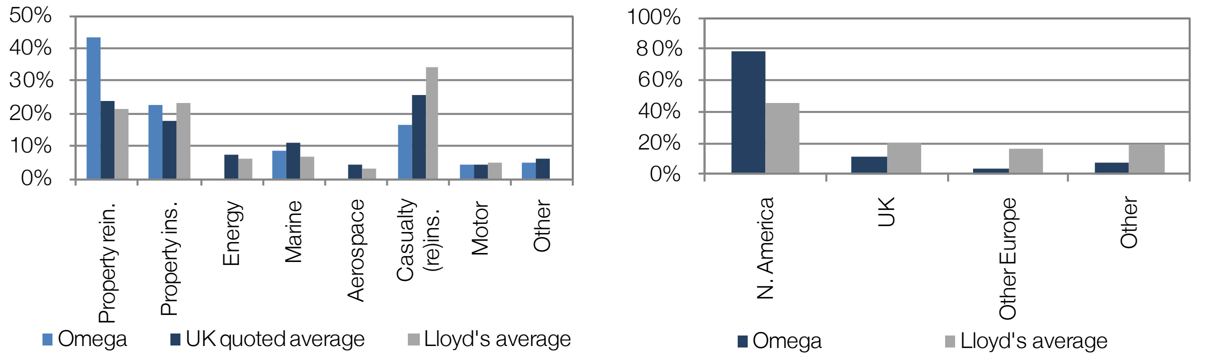
At first sight, Exhibit 1 may appear complicated because of the intra-group reinsurance arrangements but in reality it is fairly straightforward. The important point to note is that the majority of the insurance premium written by the group still comes from Syndicate 958 (we estimate 70% in 2010), either through direct participation in the capital of the syndicate by Omega Dedicated or through reinsurance of the syndicate by Omega Specialty. 'Non-syndicate' business is also sourced directly for the group by Omega US and Omega Specialty, whereas the business sourced by Omega Europe is on behalf of the syndicate. Omega Underwriting Agents is the group-owned managing agent that manages Syndicate 958, earning useful fees and profit commissions from the third-party capital that supports the syndicate. Unlike most Bermudan reinsurers that are dominated by catastrophe exposures, Omega Specialty is a diversified business as a result of its reinsuring a share of the syndicate (the 'quota share'). Alongside this, it is growing a geographically diversified, third-party book of mostly property catastrophe reinsurance for smaller insurance companies which we think gives the group a good spread of risk. Omega US targets small sized commercial property oriented risks and uses the same known and trusted agents as the syndicate to source business. It is authorised to operate in 42 states which enables it to avoid too much geographic overlap with the group's peak natural catastrophe exposures.

Focus on short-tail property risks

Exhibit 2 shows the defining characteristics of Omega's premium base versus peers.

Exhibit 2: Omega gross written premium split versus peers

Note: 2009 data.



Source: Company data, Lloyd's, Edison Investment Research

We make the following brief observations on Omega's business versus peers:

- Omega is very focused on the US, the world's largest insurance market, which continues and builds on the traditional strengths of the syndicate.
- Within property reinsurance, property catastrophe treaty reinsurance is the largest line of business, accounting for 36% of group premiums in 2009. It is generally high margin/high risk business but we think this is mitigated by Omega's focus on a wide geographic spread of smaller insurance companies.
- Omega is very focused on short-tail property risks and is under-represented in longer-tail casualty risks. The casualty exposure that Omega does have is predominantly smaller risks linked to its commercial property customer base rather than larger national risks or product liability, for example. Property insurance and reinsurance pricing has been stronger than that for casualty insurance over a number of years, although pricing for both is weakening at present. We think much casualty business is under-priced and that the extended time that it takes for claims to emerge and be settled poses a serious reserving risk to other, more long-tail, casualty-exposed businesses.

Management: Significant change and new initiatives

The senior management and board of Omega have been through a period of unusual activity. During 2009 one of the founders of Omega, and its chief underwriting officer, left the group. The departure was clearly a significant event for the group, especially having raised new equity just a few months before, and appears to have taken shareholders by surprise. The board subsequently came under pressure to make substantial changes, including the removal of the chairman and the senior non-executive director, and the appointment of a number of other individuals. Matters were resolved at a Special General Meeting of shareholders in March of this year which leaves the board comprised of a new chairman and chief executive officer (both of whom are highly experienced and whose biographies appear on p 12), the existing finance director and five new non-executive directors. The finance director has recently announced her intention to depart early in 2011.

Three of the new non-executive directors came from the same Bermudan law firm representing the shareholder action group and now Omega. We see this as temporary. One has already stepped down to make way for a member with more direct experience and we expect another industry appointment shortly.

The new chief underwriting officer had already been appointed as the ‘active underwriter’ of the syndicate in late 2009. A new managing director of the ‘managing agency’ also recently joined.

This was clearly a period of some turmoil at the top of the group but we do not consider that the business franchise has been damaged. However, the episode involved additional costs and greatly distracted management. Regardless of the merits of such large scale change we think that Omega has ended up with a very strong senior team which is acting with vigour and has already conducted a strategic review. Investments in the business infrastructure in areas such as risk and capital modelling have been made. In addition, we expect the new management to focus on capital management, cycle management and operational performance, and investment strategy. This is also an ideal opportunity to provide investors with guidance on the group’s risk appetite and financial targets. We do not anticipate material changes to the shape and focus of the group, but we think that operational efficiency would benefit from greater scale when market conditions are right. Over time we expect the third-party business in Bermuda to grow and see ample growth possibilities in the US. We would also expect Omega to seek to increase its share of the syndicate further to maintain the balance and diversity of the underwriting book. We also think it possible that the syndicate may consider opportunities to broaden the types of insurance that it writes.

Capital management

In its current form, Omega has a relatively short track record. It only really started underwriting with group capital in any meaningful way in 2006. Of course, the bulk of the premium written originates within the syndicate (we estimate 70% of gross written premium still in 2010) which has a long and exceptionally strong track record of unbroken underwriting profitability stretching back to 1980.

As a quoted entity the group performance in terms of profit return on capital (which we define as the return on equity excluding intangibles, RONTA) has been respectable but noticeably below the sector average. From 2006-09 post tax RONTA averaged 11.4% but including the difficult 2010 year takes the five year average to 8.2%. Accounts for the syndicate (in which Omega participates in a large minority of the capital and reinsurance arrangements that produce around 70% of group premiums) show a ‘return on capacity’ over 2006-09 at an estimated 11.2-13.7% pa, which broadly equates to a 22-28% pre-tax return on the capital required by Lloyd’s (with the group tax charge averaging 18.8% over the period, c 18-22% after tax). It is an estimate because under the Lloyd’s three year accounting rules for syndicates the 2008 and 2009 years are not yet ‘closed’. By implication, the root causes of the group’s rather sluggish RONTA thus lies outside its core participation in and management of the syndicate. The group’s new operations, particularly Omega Specialty, are required to hold more capital than can be prudently deployed for a time. These businesses could eventually support much greater scale and improve group operational efficiency. We also believe that the group was slow to deploy the capital raised in January 2009 when hopes for a more sustained hardening in insurance prices proved short lived.

The capital required by the syndicate is determined by Lloyd’s via the ICA process, and Omega participates in proportion to its share of capacity (40.5% for 2011). Lloyd’s operates a highly efficient capital structure from which Omega benefits. The effective capital requirement for Omega Speciality and Omega US is set by the rating agencies rather than regulators, which have tougher requirements for newer businesses. This particularly impacts Omega Specialty, established in 2006, which holds the majority of the group's capital. As a start-up company with less than five years of track record A.M. Best's Capital Adequacy Ratio (BCAR) assessment of required adjusted capital (for the A- rating that supports Omega's operations) is higher, at 175% rather than a more normal 135%. A.M. Best will conduct a review in the middle of 2011 which may be the trigger for a reduction in the capital requirement, although we caution against second-guessing A.M. Best in terms of the timing or quantum of any reduction. The current loading could add as much as $75m to Omega's capital requirement, we estimate, which impacts RONTA by some 2% until it can be more effectively deployed.

More immediately, we believe that management may well decide to introduce a prudent level of gearing into the debt free balance sheet leaving the group with capital in excess of its immediate requirements. Debt gearing (debt/tangible equity) can be as much as 30% within the peer group but we would be surprised if Omega moved much above 15% in the near term. The group will then have the flexibility to improve RONTA by profitably investing in growing the business (expanding the third-party underwriting of Omega Specialty or Omega US or seeking to acquire a larger interest in the syndicate), or by returning capital to shareholders, or some combination of the two. We expect management to stick to its disciplined approach to cycle management and expect capital return to be very likely in current market conditions. By way of illustration, we calculate that a return of $40m of capital surplus (supported by the introduction of $50m of debt capital) would increase our currently forecast RONTA of 8.9% by 1.0%. The debt/tangible equity ratio would be a very comfortable 16.1%. And it would come on top of $30m of dividend payments.

Infrastructure investment

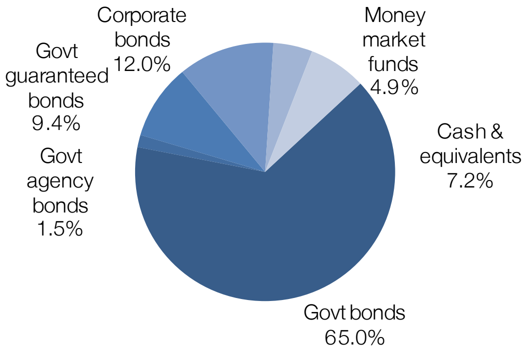
The new management team is investing in the business infrastructure. It is rolling out industry leading catastrophe modelling and has developed in-house capital modelling. There have also been significant hirings in areas such as risk management, internal audit, actuarial and finance. While this is partly about catching up with the increased scale and complexity of the group, to satisfy regulators, meet the demands of Solvency II, and to satisfactorily manage future risk we do not think it all additional cost by any means. Catastrophe modelling will allow a more detailed analysis of the risks that the group is taking on, which in turn should allow it access to more effective reinsurance – getting similar protection at lower cost or better protection for the same spend. The in-house capital model should facilitate the allocation of capital to areas of business which optimise the risk/return balance. These are not the sort of developments that it is easy to build into forecasts and we do not attempt to do so. Rather, they give us increased confidence in the group's ability to avoid material unexpected losses, while optimising the allocation of capital to different types of insurance to get the best risk/return balance.

Investment strategy

Because insurance companies hold reserves to settle the future payment of claims, investment portfolios are generally a multiple of shareholders' equity, a ratio known as investment gearing. With its focus on short-tail business where losses tend to be settled faster and because of a relatively higher level of capital, Omega's investment gearing is lower than peers. Given the decline in interest rates over the past three years this has been no bad thing, creating less pressure on RONTA than for peers. Nevertheless, investment returns are still a major source of profitability for Omega (we estimate 25% of 2011 PBT) and an area where management can create additional value.

Exhibit 3: Insurance sector investment gearing

As at December 2009	Investments/NTA
Amlin	2.8
Beazley	4.1
Brit	4.3
Catlin	3.7
Chaucer	4.7
Hardy	2.1
Hiscox	2.5
Lancashire	1.7
Novae	3.4
Omega	1.3
Average	3.1



Source: Company data, Edison Investment Research.

We look for a return of just 1.5% in 2011 on what is an extremely conservative portfolio of predominantly short-dated, government-backed bonds. An increase in market investment returns would obviously be very helpful (a 1% increase would lift our 2011 expected RONTA by 1.4%). The group has recently strengthened its investment committee and we would not be surprised if it seeks timely opportunities to slightly increase the risk/return in this unusually conservative portfolio by perhaps increasing the weight of corporate bonds, introducing asset-backed securities, and maybe adding a small amount of equities. We believe that to do so would only be bringing the portfolio more into line with peers and would certainly not be unduly risky.

Financials: Performance and forecasts

Goodbye 2010

2010 has been something of an *annus horribilis* for Omega combining boardroom turmoil with an extremely difficult industry operating environment and some company specific issues. We think the group will generate a loss for the year, principally due to its share of a number of large insurance losses. But management has guided to an unchanged dividend and we see a real prospect of additional capital return, and expect a greatly improved performance in 2011. H210 should already show improvement with PBT of $10.5m in H2 after a loss in H1 of $32m (excluding exceptional costs of $2.2m). We see no immediate end to the main industry challenges of too much capital putting pressure on pricing and weak investment returns. The lack of significant hurricane losses in H2 will increase pressure on pricing. The improved profitability we forecast for Omega will come from improvements in operational performance and the increased ownership of syndicate capital making a full contribution.

Premium development

As a result of owning a greater share of the syndicate's 2010 'capacity' (38.8% versus 16.4% in 2009) the group will show a significant increase in gross premiums written (we forecast 33%). This belies its cautious and disciplined approach to current market conditions which seeks to protect margin. The syndicate will itself be writing less business and Omega Specialty will also see a very small decline. Only Omega US will see real growth, we forecast 25%, off a very low base.

We think 2011 will be a similar story. The syndicate has maintained its level of capacity to give it flexibility but we think will write less business. Its core property lines will continue to see pricing pressure and the new management team made a conscious decision to pull out of energy where it did not feel it was strong enough to add value. There will be some increases in other lines and the motor reinsurance book should gain some benefit from the strong increases already seen in primary motor insurance. We do not expect Omega Specialty to grow and Omega US will grow more slowly. Overall we see gross premiums falling 4% in 2011 before recovering 11% in 2012 when we assume that industry pressure will have built sufficiently to restore some pricing power.

Most insurance contracts run for a year, which means that not all of the premiums written in a calendar year are actually ‘earned’ in that year. A policy written on 30 November will only ‘earn’ for one month with the balance falling into the following accounting period. Due to this effect, the full impact of the increased share in syndicate capacity for 2010 (and a further slight increase to 40.5% in 2011) will not be felt until 2011 and 2012. We estimate an increase in ‘earned premium’ of 9% in 2011 and 5% in 2012.

Underwriting results

The insurance industry saw a record $22bn in catastrophe claims in H110 of which Omega was exposed to losses such as the Chilean earthquake (Omega loss $23.4m), Deepwater Horizon, and Australian hailstorms which boosted total claims by $32.9m. Negative reserve adjustments, against an industry trend of large releases, cost $12m. The combined ratio hit 128%. The New Zealand earthquake in H2 will cost a disappointingly high $20m, but we do not anticipate a repeat of reserve additions and ascribe the H1 increase to the appointment of a new management team and new external actuaries in addition to some one-off factors. We believe that the investments that the group is making, including catastrophe and capital modelling, make a repetition of the H110 claims losses much less likely, with better risk assessment and more effective reinsurance protection. With a reduction in catastrophe losses and no reserve additions we expect the combined ratio to improve to 87.3% in 2011.

Other

As discussed elsewhere in this note, we think that the investment result will decline further as maturing investments are reinvested at prevailing rates. We expect the managing agency profits to recover after profit commission suffered with the poor 2010 result. Although the group is investing we do not see a material net impact on expenses, not least because the ‘corporate activity’ of the last year has involved additional costs. The share of profits originating in Bermuda should keep the group tax rate low. We forecast 12%.

Valuation

Focus on returns

For this sector we believe it appropriate to focus on returns generated on shareholders’ equity which we define as the normalised return on net tangible assets (RONTA). A higher RONTA means more cash can be returned to shareholders or invested in growing the business (and NTA per share) and deserves a higher price to net tangible assets (P/NTA). But forecasting ‘sustainable returns’ in an industry where pricing is cyclical, claims costs lumpy and difficult to predict over short periods, and investment returns uncertain, is no easy task. With the insurance cycle weakening and no sign of an upturn in investment returns, the sector P/NTA is unusually low in a historical context, reflecting investor caution. We calculate the sector is trading on a 2011 P/NTA of 0.95x (down from around 1.4x in 2007) with an expected RONTA of 12.9%.

Strategies of strict underwriting discipline and cycle management (putting capital to work when pricing is going up and withdrawing when prices are declining), combined with active capital management (not sitting on idle, non-productive capital) have generally proven to be more valuable over time than the pursuit of rapid growth, which with hindsight (it can take some years for claims to emerge) can often prove a disappointment. Omega has a clear track record of underwriting discipline and cycle management. We also believe that Omega is likely to embark on a programme of much more active capital management. In the absence of a general improvement in industry fundamentals we believe that the success of management efforts to lift RONTA versus peers will be the main driver of share performance.

RONTA enhancement will support P/NTA

For the reasons that we have explained in this note, Omega's RONTA has been lower than peers, dulled mainly by the weight of capital. We look for a RONTA of 8.9% in 2011 and 9.3% in 2012, before factoring in the actions that we expect management to take. We think a return of capital of the order of $40m quite feasible, lifting the RONTA by a further 1.0%. We also think there is room for management to improve upon our assumed 1.5% investment return by adopting a more conventional stance on portfolio risk. If RONTA can be pushed towards 10.5% at a low point in the cycle, before any benefit from a likely reduction in the BCAR, which could add another 2% over time, then returns will have converged on peers. We think the current 0.96x 2011e P/NTA should then move towards 1.1x. We would view a turn in the pricing cycle and/or an increase in market investment returns as very positive for RONTA and P/NTA across the sector.

Strong yield support

Traditionally Omega has paid out a large share of earnings in dividends, around 70% in recent years. Despite a lack of profitability in 2010 it intends to pay an unchanged dividend of 12.5c for 2010, which represents a yield of 7.8% on the current share price. Until the pricing cycle improves and Omega can profitably grow the top line we think the high pay-out ratio can be maintained. But as growth opportunities emerge we think management would be wise to consider pegging the dividend and allowing the pay-out ratio to drop. If market conditions improve materially it would even be sensible to slightly reduce the dividend and invest in growing net asset value.

Canopius interest underpins valuation.

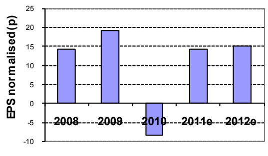
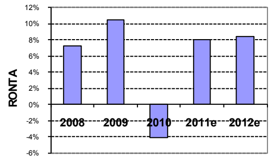
Omega's confirmation (10 January 2011), following media speculation, that it has received an unsolicited approach from Canopius Group Limited proposing a possible offer to acquire Omega underpins our valuation of the shares. Management states that it will consider any offer that may emerge in due course, but will in any case remain focused on building the business. In such a situation our estimate of fair value would need to be adjusted for the synergies available to any acquirer and would be expected to more fully recognise the franchise value and future prospect of the business.

Exhibit 4: Financials

Note: Normalised PBT excludes exceptional items.

Year end 31 December US$m	2008 IFRS	2009 IFRS	2010e IFRS	2011e IFRS	2012e IFRS	H110 IFRS	H210e IFRS
Gross written premium	265.4	265.8	353.5	338.7	375.3	244.1	109.4
Net premium revenue	215.7	195.5	251.8	273.5	286.5	105.6	146.3
Investment return	21.8	16.3	12.5	9.9	10.3	9.1	3.4
Other income	23.7	16.4	3.2	14.2	14.2	(3.9)	7.1
Total Revenue	261.2	228.2	267.5	297.5	311.0	110.7	156.8
Net claims cost	(163.9)	(96.3)	(193.9)	(155.9)	(163.8)	(105.7)	(88.2)
Other expenses	(72.7)	(81.0)	(95.2)	(101.2)	(104.4)	(38.8)	(56.4)
FX	3.9	(.2)	0.0	0.0	0.0	1.7	(1.7)
Operating Profit (pre impact of FX on non-monetary items)	28.5	50.7	(21.5)	40.4	42.8	(32.0)	10.5
Impact of FX on non-monetary items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	(3.6)	(2.2)	0.0	0.0	(2.2)	0.0
Financing costs	(0.2)	(0.1)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	28.2	50.7	(21.5)	40.4	42.8	(32.0)	10.5
Profit Before Tax as reported	28.2	47.1	(23.8)	40.4	42.8	(34.2)	10.5
Tax	(6.0)	(3.4)	0.9	(4.8)	(5.1)	2.0	(1.0)
Profit After Tax (norm)	22.2	47.2	(20.6)	35.5	37.6	(30.0)	9.4
Profit After Tax as reported	22.2	43.6	(22.8)	35.5	37.6	(32.3)	9.4
Average Number of Shares Outstanding (m)	147.5	234.8	243.5	243.5	243.5	243.5	243.5
EPS - normalised (c)	15.1	20.1	(8.5)	14.6	15.5	(12.4)	3.9
EPS - as reported (c)	15.1	18.6	(9.4)	14.6	15.5	(13.3)	3.9
EPS - normalised and fully diluted (c)	14.1	19.2	(8.3)	14.3	15.2	(12.1)	3.8
Dividend per share (c)	11.3	12.5	12.5	12.5	12.5	6.0	6.5
Dividend cover	1.2	1.5	(0.7)	1.1	1.2	(2.0)	0.6
NAV per share ($)	1.92	2.04	1.82	1.85	1.88	1.83	1.82
ROE	7.2%	10.5%	(4.1%)	8.0%	8.4%	(12.1%)	4.2%
Net tangible assets per share ($)	1.90	1.86	1.65	1.67	1.70	1.65	1.65
RONTA	7.3%	11.6%	(4.5%)	8.9%	9.3%	(13.2%)	4.6%
Loss ratio	76.0%	49.3%	77.0%	57.0%	57.2%	100.1%	60.3%
Expense ratio (inc Group overhead)	33.7%	41.4%	37.8%	37.0%	36.4%	36.8%	38.5%
Combined ratio	109.7%	90.7%	114.8%	94.0%	93.6%	136.9%	98.8%
Reported COR	101.4%	81.3%	107.5%	87.3%	87.2%	128.2%	92.6%
Investment return	5.8%	2.8%	2.0%	1.5%	1.5%	3.0%	1.1%
NTA/GWP	106.0%	170.4%	113.5%	120.0%	110.2%	N/A	N/A
Debt/NTA	0.0%	0.0%	0.0%	0.0%	0.0%	N/A	N/A

Source: Omega Insurance Holdings, Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
		N/A	Litigation/regulatory	◐
			Pensions	○
			Currency	◐
			Stock overhang	○
			Interest rates	●
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 08-12e	14.1	RONTA 11e	8	Gearing 11e	N/A	Address:	
EPS CAGR 10-12e	N/A	Avg RONTA 08-12e	6	Interest cover 11e	N/A	Clarendon House Church Street, Hamilton Bermuda HM11	
EBITDA CAGR 08-12e	N/A	ROE 11e	N/A	CA/CL 11e	N/A		
EBITDA CAGR 10-12e	N/A	Gross margin 11e	N/A	Stock turn 11e	N/A	Phone	020 7767 3051
Sales CAGR 08-12e	N/A	Operating margin 11e	N/A	Debtor days 11e	N/A	Fax	020 7488 9639
Sales CAGR 10-12e	N/A	Gr mgn / Op mgn 11e	N/A	Creditor days 11e	N/A	www.omegauw.com	

Principal shareholders	%
Invesco Ltd	29.5
Artemis Investment Management. (SC)	8.87
Ameriprise Financial Inc. (Group)	8.34
Robinson J.D.	7.43
Aviva Investors	6.80
BlackRock Inc	5.20
Jupiter Asset Management	5.00

Forthcoming announcements/catalysts	Date *
Prelim results	08 Mar 2011
Interim results	Aug 2011
*Note: * = estimated*	

Management team
CEO: Richard Pexton
Richard Pexton joined the group as CEO in March 2010. As CEO of Heritage Managing Agency from 2002 he led its LSE flotation as Heritage Underwriting Agency plc in 2006, where he remained CEO until 2008 when the business was sold to a Bermudan insurer. Previously he has been Active Underwriter and a board member of Cox Insurance plc and a board member of B.F. Caudle Agencies Ltd.
CFO: Penny James
Penny James has been CFO since 2007 but recently announced her departure in early 2011 to pursue a career opportunity. She previously held various financial positions at Zurich Financial Services from 1995. She is a member of the Institute of Chartered Accountants for England and Wales.
Chairman: John Coldman
John Coldman was MD of Benfield Group from 1986-96 and chairman until 2008, overseeing its flotation on the LSE and eventual sale to Aon Corp. From 1996-2000 he also served as chairman of Brit Insurance Holdings plc. He was deputy chairman and a member of the Council of Lloyd's 2001-06.

Companies named in this report
Amlin, Beazley, Brit Insurance Holdings, Catlin Group, Chaucer Holdings, Hardy Underwriting Bermuda, Hiscox, Lancashire Holdings, Novae Group