IMAGINE

Syndicate 2525

Annual Report 2007

Annual accounting contents

Closing year of account contents

Annual Report and Accounts
for the year ended 31 December 2007

Managing agent: Directors and administration

Managing agent

Imagine Syndicate Management Limited

Directors

I J Bremner (Managing Director)
G E Morrison (Chairman)
L J Gibbins
M P Daly
M A Petzold
R J Forness
A T West*
C A T W Von Bechtolsheim*
N H H Smith*

*Non-executive directors

Company secretary

S C Pattni

Managing agent's registered office

4th Floor
XL House
70 Gracechurch Street
London EC3V 0XL

Managing agent's registered number

03304600

Syndicate:

Active underwriter

D L Pratt

Bankers

Barclays Plc
Citibank N.A., New York

Investment managers

Crédit Agricole Asset Management (UK) Limited

Registered auditors

KPMG Audit Plc

Report of the directors of the managing agent at 31 December 2007

The managing agent presents its report for the year ended 31 December 2007.

Corporate governance

Imagine is managed by a Board of Directors consisting of a management team of six Executives, including an Executive Chairman and three Non-Executives. The Board meets regularly throughout the year and a number of matters are specifically reserved for its consideration and approval. In addition the Board delegates a number of items to various sub-committees that have clearly defined terms of reference.

Active underwriter

The Active Underwriter during 2007 was David Pratt.

Principal activity and review of the business

Syndicate 2525 writes employers' and public liability insurance primarily in the United Kingdom.

A full review is included in the underwriter's report.

Results overview

The result for calendar year 2007 is a profit before other recognised gains and losses of £16.00 million (2006: profit of £11.29 million). Profits or losses will continue to be distributed or collected by reference to the results of individual underwriting years. The contribution of the three open underwriting years to the calendar year profit is stated below:

Year	**Profit/(Loss) £m**
2005	17.1
2006	1.8
2007	(2.9)
Calendar year 2007	16.0

2005 year in 2007

Profit for the year	£17.1m

The 2005 year has outperformed our expectations with the closing year profit (discussed in full in the 2005 closing year report) ahead of the forecast at 31 December 2006. We steadily improved our forecast profit for the closing year throughout 2007 and are pleased that the final result is at the top end of the forecast range. The contribution of the 2005 year to the result for 2007 of £17.1 million is largely the product of the continued improvement in ultimate loss ratios during the year.

2006 year in 2007

Profit for the year	£1.8m

The profit on the 2006 year results in the year showing a small profit at the 24 months stage. It has continued to perform well in 2007 with the level of claims incurred being such that ultimate loss ratios have improved since 31 December 2006. However, this profit is lower than the 2005 account at this stage due to lower utilisation levels and premium rates.

2007 year in 2007

Loss for the year	£2.9m

The prudent reserving methodology adopted in 2006 continued to be applied in 2007. This factor combined with the continuing pressure on rates resulted in the year reporting a loss larger than that of 2006 as reported last year.

Future developments

The syndicate's capital aspirations for 2008 were met with a capacity of £42 million. The market, however, is competitive and this may have some impact on our ability to achieve premium income forecasts for the 2008 account. Despite this we remain satisfied that with very stringent risk selection, rates for our targeted business segments remain adequate to achieve a profit commensurate with business plan objectives.

Principal risks and uncertainties

Key to the performance of the syndicate is the adequacy of its reserves. As a longer tail liability class business, development of claims over the 7 to 10 year tail will have a material impact on its profitability. This will be impacted on by both claims development volatility and changing trends in claims inflation rates.

Similarly, the stability of the prevalent interest rates may affect the ongoing results of the syndicate, as the interest rate environment will influence both pricing and reserving.

Report of the directors of the managing agent at 31 December 2007

Principal risks and uncertainties *(continued)*

Equally important to the syndicate is the ability to successfully manage its own risk exposure through the outwards cession of risk to reinsurers. Careful modelling and assessment of underlying risks borne inform the purchase of the syndicate's reinsurance programme; it is key that this programme mitigates the syndicate's gross exposure in the manner expected.

The rating environment is also a significant area of future uncertainty. Rates continue to soften from their peaks a few years ago and whilst one can project the end of this phase of the insurance cycle based on historical precedent there can be no certainty over when rates will start to harden again.

It is expected that this business will be subject to the vagaries of the market cycle and must strive always to deal effectively with the problems that this presents. Managing the expectations of clients and brokers within the prevalent softer market conditions, whilst maintaining the underwriting standards necessary to produce an adequate return for capital providers, remains the syndicate's biggest challenge.

Finally, as a business dependent on human capital, the syndicate is exposed to the risk of loss of key staff, especially in the underwriting teams. Loss of key individuals could have a material impact on the syndicate's future profitability. To mitigate this, syndicate management endeavours to structure appropriate incentivisation packages to align underwriters' interests and retain staff loyalty.

Key performance indicators

The principal financial key performance indicators (KPI) relevant to the syndicate are:

Gross Written Premium – This has decreased to £42.3 million from £45.7 million in 2006.
Net Underwriting Income – This has increased in 2007 to £23.0 million (2006: £19.0 million).
Investment Return – This has seen an increase to 5.0% (2006: 3.9%).
Year of Account Return on Capacity – 2005 account 42.8% (2004 account: 20.07%)

Given the nature of the syndicate's business, the main regulatory financial KPI considered relevant is:

Capacity Utilisation – This has been 74.9% for 2007 (2006: 80.3%).

Directors

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

Name	Appointed/Resigned
I J Bremner	
R J Wallace	Resigned (15 March 2007)
G E A Morrison	
M P Daly	
L J Gibbins	Appointed (16 February 2007)
R J Forness	
M A Petzold	
A T West*	
M W Petzold*	Resigned (12 December 2007)
R R Dally	Resigned (30 January 2007)
C A T W Von Bechtolsheim*	Appointed (18 June 2007)
N H H Smith*	Appointed (12 December 2007)

* Non-Executive Directors.

Investment policy and performance

Imagine operates a Risk Management Committee, which is responsible for recommending to the Agency Board the longer term strategy and investment policy of the syndicate, and the appointment of investment managers of the syndicate's funds. The Committee is also responsible for monitoring the performance of investment managers and ensuring that all relevant Lloyd's and other regulatory requirements are met.

Credit Agricole Asset Management (UK) were appointed as Investment Managers to the syndicate with effect from 1 January 2001 and have continued in office since.

Investment policy

The Investment Objective is to invest the Premiums Trust Funds in a manner calculated to maximise return within agreed restraints and in line with policies approved by the Agency. In consideration of this policy, portfolios are predominantly invested in short-term, high quality fixed income securities. The Investment Managers have been instructed to invest for the highest total return consistent with maintaining adequate liquidity and security. The Investment Managers have discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall

Report of the directors of the managing agent at 31 December 2007

Investment policy *(continued)*

portfolio controls the exposure of the investments to adverse price conditions. An investment committee and formal procedures for monitoring investments exist in line with guidance from Lloyd's.

Review of calendar year 2007

The first half of 2007 appeared to be one of continued economic growth and rising inflationary pressures. However the sub-prime crisis and consequent credit crunch forced most major monetary authorities to change course and acknowledge that, what appeared to be an isolated domestic issue looked likely to spread wider, and continue for longer, than initially expected. Having held US Fed Funds steady at 5.25% for the first half of 2007, the ensuing credit conditions forced the Federal Reserve Bank to cut interest rates aggressively to 4.25% by year-end, with financial markets pricing in further cuts and a high probability of economic recession.

Similarly, having seen the first bank run for over 100 years, the UK's MPC was forced to lower interest rates from 5.75% to 5.5%. Signs that growth was slowing, spending moderating and financial market conditions deteriorating were all cited as reason for the relaxation in lending conditions. Stubbornly high inter-bank rates leave further cuts likely through 2008. The UK housing market continues to weaken and could create additional economic drag, but this is not expected to be of the same severity and impact as that in the US.

The Bank of Canada raised rates 25bp to 4.5% in July, citing strong economic growth and building inflationary pressures. By December, the deterioration in conditions south of the border, and the relentless ascent of the currency versus the US Dollar, forced a reversal in policy with a 25bp cut. The ECB has been less active in alleviating tight lending conditions keeping the Repo rate steady at 4.0%; having increased rates 50bp during the first half of 2007. The ECB are more likely to encourage member states to speed up structural reforms, freeing up labour markets and raising productivity with the aim of increasing the potential non-inflationary growth rate.

Deteriorating credit conditions have created a crisis in confidence such that price is no longer a parameter for investors looking to reduce risk. As such Government bond yields, in particular in the US, rallied significantly with 2 year US Government bond yields falling by around 3% in the second half of the year. The corollary of this was that credit spreads ended the year significantly wider. Consequently investment returns were higher than expected for investors in high grade fixed income, but holders of lower rated, or longer dated, non-Government bonds saw capital losses erode margins, underperforming Governments. The syndicate's portfolios have been invested in line with the Investment Manager's view that credit spreads were too tight and have thus been underweight credit for the second half of 2007, protecting the syndicate from the negative price action in the credit markets. The Investment Managers had no exposure to sub-prime, whether through CDO, MBS or ABCP on behalf of the syndicate during 2007. Duration was shortened in 2007 which, whilst not taking full advantage of falling yields in long dated Treasuries, minimised the impact of Corporate bond spread widening.

Investment returns were at the top end of estimates made at the beginning of 2007 and comfortably above credit market indices in all currencies. Net cash-flows were relatively flat over the year, having little impact on total investment earnings.

2008 outlook

2008 looks set to be a very difficult year for the major monetary authorities stuck between growing credit and economic growth risks on the downside and the expectation of inflationary pressures remaining to the upside. Conditions in credit markets may well deteriorate further with continued credit spread widening likely. Low bond yields and falling cash rates mean that returns in 2008 will, in most currencies, be lower than 2007. Euro returns may be the exception as the ECB has been reluctant to cut interest rates and bond yields finished 2007 marginally higher than at the start of the year. The potential for negative capital price movements means that durations will likely be kept short from the beginning of 2008, in line with the investment objective of protecting the portfolio against unnecessary losses. Nevertheless, wider credit spreads mean that the opportunity will be taken to allocate the portfolio to attractively priced, highly rated, non-Government paper when the opportunities arise and markets permit. It is unlikely that this risk allocation will extend to lower rated corporates as event risk remains high, particularly in the Financials sector.

Report of the directors of the managing agent at 31 December 2007

Stock lending

No stock was made available for lending, in the non-centrally managed funds, on behalf of members of the syndicate during 2007. No stock was being lent on behalf of members of the syndicate at 31 December 2007.

Accounting records

As required by the Syndicate Accounting Byelaw, reinsurance resumes setting out a summary of the reinsurance programme protecting all years of account have been approved by the Directors of Imagine and are available for inspection at the registered office of Imagine.

Subcontracted functions

The managing agent has sub contracted the following functions:

Maintenance of accounting records and certain data processing functions: Capita Commercial Insurance Services Limited.

Investment management: Credit Agricole Asset Management (UK) Limited.

Errors and omissions insurance

Lloyd's underwriting agents errors and omission insurance cover is not a mandatory requirement by Lloyd's. With only uncommerical terms currently available, no errors and omissions insurance has been purchased by Imagine. The matter continues to be under review.

Names' annual general meeting

In accordance with the conditions of the Syndicate Meetings (Amendment No 1) Byelaw, the managing agent proposes not to hold a Names' Annual General Meeting. Any member of the syndicate who wishes to object to this proposal should do so by 20 April 2008.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditors are unaware; and each director has taken all the steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Auditors

The managing agent intends to re-appoint KPMG Audit Plc as the syndicate's auditors.

Approved by the Board of Directors and signed on behalf of the Board

I J Bremner
Managing Director

Date 20 March 2008

Registered Office
70 Gracechurch Street
London EC3V 0XL

Underwriter's report for the year ended 31 December 2007

2005 year of account

Allocated Capacity	£44.3m
Capacity utilisation	93.7%
Profit in 2007	£17.1m

I am very pleased to report a bottom line profit of £17.1 million pounds with is above our previous forecast.

Due to a change in the trading conditions we experienced in 2004 and the subsequent under utilisation of our stamp capacity, we submitted a de-emption to Lloyd's for 2005 with our capacity finalising at £44.282 million. I am pleased to report that as a result we achieved a much higher premium utilisation of 94% for the year. This compares with a premium utilisation of 75% in 2004.

There was a continued downward pressure on rates although our premium rating monitors shows that the reductions for the year were slightly less than during 2004, a trend, which happily has continued to the present day. The account and the business splits which we set were broadly similar to 2004, although there was a marked decrease in the Contractors ratio from 40% to 34% and an increase in the Excess Third Party ratio from 20% to 25%. This was planned for and is a positive in terms of the balance of the account. Terms, conditions, and more especially excesses on the Primary Third Party account remained sensible and significant.

The profit for the pure 2005 underwriting year is £2.9 million, with the balance coming from releases from closed years. The majority of this amount comes from both 2003 and 2004 underwriting years. For comment on the releases, please see my closing year statement.

2006 year of account

Allocated Capacity	£50.0m
Forecast Utilisation	80%
Profit in 2007	£1.8m

Our stamp increased marginally in 2006 to £50 million and although we anticipate a lower utilisation of just below 80%, written premium compares well with 2005.

Competition within our sector continued throughout 2006 and caused adverse pressure on rating, though once again our premium rating monitors confirmed less reduction than in 2005. The account and our business ratios remained almost exactly the same as those in 2005. Terms and conditions remained strong and more importantly we continued to impose realistic excesses on the Third Party Primary account.

At the 24-month development stage, the net loss ratio for the year is only 3.5 points different than recorded on 2005 at the same point in time.

2007 year of account

Stamp Capacity	£41.9m
Forecast Utilisation	80% – 85%
Loss in 2007	£2.9m

We reduced the Syndicate's capacity for 2007 to £41.9 million given the projected level of premium for 2006. We expect to sign between £34 million and £35 million, which will equate to an utilisation of between 80% and 85% at closure.

The account and the business ratios were once again very similar to the previous year, although the Employer's Liability account was marginally ahead of expectations. As in previous years, terms and conditions remained static and we were able to impose similar excesses on the Third Party Primary account.

The loss for the year in 2007 is £2.9 million. However, I would draw your attention to the 2006 underwriting GAAP year figure provided this time last year where a loss was also predicted. This, after another year of development, has now moved into profit and I have every confidence 2007 will do likewise.

2008 year of account and the future

Stamp Capacity	£42.00m

At this point in the cycle, there are some who clamour for change. We are strong believers in our philosophy and have thus far not considered it necessary to deviate from the course we have taken. Our strong broker relationships allow us to mitigate some of the impact of soft market conditions but we

Underwriter's report for the year ended 31 December 2007

2008 year of account and the future *(continued)*

underwrite in a marketplace which means that we cannot completely avoid the impact of falling prices.

One cannot always guarantee a positive return but I do believe that we will always compare well with our peers in any given market conditions. These are difficult times for us and there is no doubt that we need some correction in the market. I thank you all for your support.

D L Pratt
Active Underwriter

Date 20 March 2008

Registered Office
70 Gracechurch Street
London EC3V 0XL

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual report and annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 require the managing agent to prepare syndicate annual accounts for Syndicate 2525 at 31 December each year in accordance with UK GAAP which give a true and fair view of the state of affairs of the syndicate as at the date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so,
- follow applicable United Kingdom accounting standards, subject to any material departures disclosed and explained in the annual report.

The directors confirm that they have complied with the above requirements in preparing the financial statements of Syndicate 2525.

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 website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of syndicate 2525

We have audited the syndicate 2525 annual accounts for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. The syndicate annual accounts have been prepared under the accounting policies set out therein.

This report is made solely to the members of the syndicate, 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 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 managing agent and auditors

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities on page 11.

Our responsibility is to audit the syndicate 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 syndicate annual accounts give a true and fair view and are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you whether in our opinion the managing agent's report is consistent with the syndicate annual accounts.

In addition we report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of that syndicate, if the syndicate annual accounts are not in agreement with the 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 the directors of the managing agent and other transactions is not disclosed.

We read the other information attached to the syndicate annual accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate 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 syndicate annual accounts. It also includes an assessment of the significant estimates and judgments made by the managing agent in the preparation of the syndicate 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 syndicate 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 syndicate annual accounts.

Opinion

In our opinion:

- the syndicate annual accounts give a true and fair view in accordance with UK Generally Accepted Accounting Practice of the state of syndicate 2525's affairs as at 31 December 2007 and of its profit for the year then ended;
- the syndicate 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 managing agent's report is consistent with the syndicate annual accounts.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London, EC4Y 8BB

20 March 2008

Profit and loss account: technical account – general business at 31 December 2007

	Notes	2007 £000	2007 £000	2006 £000	2006 £000
Earned premiums, net of reinsurance					
Gross premiums written	3	42,379		45,670	
Outward reinsurance premiums		(6,469)		(7,373)	
Net premiums written		35,910		38,297	
Change in the provision for unearned premiums					
Gross amount		1,650		2,072	
Reinsurers' share		(273)		(482)	
Change in net provision for unearned premiums		1,377		1,590	
Earned premiums, net of reinsurance			37,287		39,887
Allocated investment return transferred from the non-technical account			7,702		4,779
Claims incurred, net of reinsurance					
Claims paid – Gross amount		(16,146)		(15,959)	
– Reinsurers' share		1,674		919	
Net claims paid		(14,472)		(15,040)	
Change in the provision for claims					
Gross amount		(3,913)		(14,638)	
Reinsurers' share		4,138		8,748	
		225		(5,890)	
Claims incurred, net of reinsurance			(14,247)		(20,930)
Net operating expenses	4		(14,112)		(12,443)
Balance on the technical account – for general business			16,000		11,293

All operations are continuing.

The notes on pages 19 to 27 form part of the financial statements.

Profit and loss account: non-technical account at 31 December 2007

	Notes	2007 £000	2006 £000
Balance on the technical account – general business		16,000	11,293
Investment income	9	7,146	6,132
Unrealised gains on investments		888	27
Investment expenses and charges	10	(629)	(750)
Unrealised losses on investments		(333)	(630)
Allocated investment return transferred to general business technical account		(7,072)	(4,779)
Profit for the financial year	14	16,000	11,293

All operations are continuing.

The notes on pages 19 to 27 form part of the financial statements.

Statement of total recognised gains and losses at 31 December 2007

	2007 £000	2006 £000
Profit for the financial year	16,000	11,293
Foreign exchange movement on members' funds	245	(67)
Total recognised gains and losses since last annual report	16,245	11,226

All operations are continuing.

The notes on pages 19 to 27 form part of the financial statements.

Balance sheet – assets at 31 December 2007

	Notes	2007 £000	2007 £000	2006 £000	2006 £000
Assets					
Investments					
Other financial investments	11		115,604		110,914
Reinsurers' share of technical provisions					
Provision for unearned premiums		2,610		2,883	
Claims outstanding		29,234		24,952	
			31,844		27,835
Debtors					
Due within 1 year:					
Debtors arising out of direct insurance operations	12	11,628		10,586	
Debtors arising out of reinsurance operations	13	1,289		549	
Other debtors		288		1,417	
			13,205		12,552
Due after 1 year:					
Amounts due from members			279		146
Other assets					
Cash at bank and in hand		22,657		19,536	
Overseas deposits		4,217		11,278	
			26,874		30,814
Prepayments and accrued income					
Deferred acquisition costs		3,536		3,710	
Other prepayments and accrued income		238		421	
			3,774		4,131
Total assets			191,580		186,392

The notes on pages 19 to 27 form part of the financial statements.

Balance sheet – liabilities at 31 December 2007

	Notes	2007 £000	2007 £000	2006 £000	2006 £000
Liabilities					
Capital and reserves					
Members' balances	14		15,553		14,354
Technical provisions					
Provision for unearned premiums		16,954		18,544	
Claims outstanding		151,796		146,512	
			168,750		165,056
Creditors					
Due within one year:					
Creditors arising out of direct insurance operations	15	1,463		3,077	
Creditors arising out of reinsurance operations	16	1,937		–	
Other creditors including taxation and social security		3,634		3,224	
			7,034		6,301
Due after one year:					
Other creditors		82		285	
Accruals and deferred income		161		396	
			243		681
Total liabilities			191,580		186,392

The notes on pages 19 to 27 form part of the financial statements.

The financial statements on pages 13 to 27 were approved by the Board of Imagine Syndicate Management Limited on 20 March 2008 and were signed on its behalf by

I J Bremner
Managing Director

20 March 2008

Statement of cash flows at 31 December 2007

	Notes	2007 £000	2006 £000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit on ordinary activities		16,000	11,293
Realised and unrealised investments gains/(losses)		(2,048)	1,422
(Decrease)/Increase in net technical provisions		(316)	3,867
(Increase)/Decrease in debtors		(429)	11,497
(Decrease)/Increase in creditors		296	(6,715)
Foreign exchange movements on balance due to members		245	(67)
Net cash inflow from operating activities		13,748	21,297
Payment of agency fees		(268)	(285)
Transfer to members in respect of underwriting participations:		(14,776)	(11,035)
Financing:			
Cash calls (not paid)/received		(1)	4
		(1,297)	9,981
Cash flows were invested as follows:			
Increase/(Decrease) in cash holdings	17	2,974	14,117
Net portfolio investment	17	(4,271)	(4,136)
Net investment of cash flows		(1,297)	9,981

Notes to the financial statements at 31 December 2007

1. Basis of preparation

The financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, applicable Accounting Standards in the United Kingdom, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006) ("the ABI SORP").

2. Accounting policies

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums written

Premiums written comprise premiums on contracts incepted during the financial year. 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, as well as adjustments made in the year to premiums written in prior accounting periods.

(b) Unearned premiums

Written premium is 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.

(c) 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.

(d) Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by external consulting actuaries. These techniques 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. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated 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 syndicate used a number of statistical techniques to assist in making these estimates.

Accordingly 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 rating and other models 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, 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.

(e) Unexpired risks provision

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise 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.

Notes to the financial statements at 31 December 2007

2. Accounting policies *(continued)*

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

(f) 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.

(g) Foreign currencies

Income and expenditure in US Dollars, Canadian Dollars and Euros are translated into Sterling 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.

Syndicate assets and liabilities, are translated into sterling at the rates of exchange at the balance sheet dates. Differences arising on translation of foreign currency amounts in syndicates included in the statement of total recognised gains and losses.

(h) Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at mid-market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

(i) 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 carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, 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 to reflect the investment return on funds supporting underwriting business.

(j) 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 (currently at 22%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members of 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 other overseas tax payable by members on underwriting results.

(k) Pension costs

Imagine Syndicate Management Limited operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the syndicate and included within net operating expenses.

Notes to the financial statements at 31 December 2007

3. Segmental analysis

An analysis of the underwriting result before investment return is set out below:

2007	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	42,379	44,029	(20,059)	(14,112)	930	8,928
Total	42,379	44,029	(20,059)	(14,112)	930	8,928

2006	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	45,670	47,742	(30,597)	(12,443)	1,812	6,514
Total	45,670	47,742	(30,597)	(12,443)	1,812	6,514

All premiums were written in the UK. Analysis by destination is not materially different from the analysis above.

4. Net operating expenses

	2007 £000	2006 £000
Acquisition costs	8,716	8,798
Change in deferred acquisition costs	185	532
Administrative expenses	4,395	3,107
Loss on exchange	816	6
	14,112	12,443

Administration expenses include:

	2007 £000	2006 £000
Auditors' remuneration		
Audit services	89	137
Other services	9	–
Total auditors' remuneration	98	137

Notes to the financial statements at 31 December 2007

5. Staff numbers and costs

All staff are employed by the service company. The following amounts were recharged to the syndicate in respect of salary costs:

	2007 £000	2006 £000
Wages and salaries	1,407	1,204
Social security costs	130	128
Other pension costs	133	115
	1,670	1,447

The average number of employees employed by the service company but working for the syndicate during the year was as follows:

	2007 Number	2006 Number
Administration and finance	6	12
Underwriting	7	6
Claims	7	8
	20	26

6. Emoluments of the directors of Imagine Syndicate Management Limited

The directors of Imagine Syndicate Management Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2007 £000	2006 £000
Emoluments	78	106
Contributions to pension schemes	6	5
	84	111

Notes to the financial statements at 31 December 2007

7. Active underwriter's emoluments

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

	2007 £000	2006 £000
Emoluments	197	182
Contributions to pension schemes	20	18
	217	200

8. Highest paid director's emoluments

The highest paid director received the following aggregate remuneration charged as a syndicate expense:

	2007 £000	2006 £000
Emoluments	25	50
Contributions to pension schemes	3	5
	28	55

9. Investment income

	2007 £000	2006 £000
Income from investments	7,079	6,102
Gains on the realisation of investments	67	30
	7,146	6,132

10. Income from investments and charges

	2007 £000	2006 £000
Investment management expenses, including interest	146	90
Losses on realisation of investments	483	660
	629	750

Notes to the financial statements at 31 December 2007

11. Other financial investments

	Market value		Cost	
	2007	2006	2007	2006
	£000	£000	£000	£000
Debt securities and other fixed income securities	115,604	110,189	114,671	111,064
Other loans	–	725	–	709
	115,604	110,914	114,671	111,773

All debt securities and other fixed interest securities are listed on a recognised stock exchange.

12. Debtors arising out of direct insurance operations

	2007	2006
	£000	£000
Due within one year		
– intermediaries	11,628	10,586
	11,628	10,586

13. Debtors arising out of reinsurance operations

	2007	2006
	£000	£000
Due within one year		
– intermediaries	1,289	549
	1,289	549

14. Reconciliation of members' balances

	2007	2006
	£000	£000
Members' balances brought forward at 1 January	14,354	15,576
Profit for the financial year	16,000	11,293
Exchange movement	245	(67)
Distribution to members	(15,046)	(12,448)
Balance carried forward at 31 December	15,553	14,354

Members participate on syndicates by reference to years of account. Their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of the the years on which they participate.

15. Creditors arising out of direct insurance operations

	2007	2006
	£000	£000
Due within one year		
– Intermediaries	1,463	3,077
	1,463	3,077

Notes to the financial statements at 31 December 2007

16. Creditors arising out of reinsurance operations

	2007 £000	2006 £000
Due within one year		
– intermediaries	1,973	–
	1,973	–

17. Movement in opening and closing portfolio investments net of financing

	2007 £000	2006 £000
Net cash inflow from the year	2,974	14,117
Cash flow – portfolio investments	(4,271)	(4,136)
Movement arising from cash flows	(1,297)	9,981
Changes in market value and exchange rates	2,047	(1,422)
Total movement in portfolio investments net of financing	750	8,559
Balance brought forward at 1 January	141,728	133,169
Balance carried forward at 31 December	142,478	141,728

18. Movement in cash and portfolio investments

	At 1 January 2007 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2007 £000
Cash at bank and in hand	19,536	2,974	147	22,657
Debt securities and other fixed income securities	110,189	3,566	1,849	115,604
Deposit with credit institutions	725	(725)	–	–
Overseas deposits	11,278	(7,112)	51	4,217
Total portfolio investments	141,728	(1,297)	2,047	142,478

19. Net cash inflow on portfolio investments

	2007 £000	2006 £000
Sale/(Purchase) of overseas deposits	7,112	(2,781)
Sale/(Purchase) of deposits with credit institutions	725	(370)
(Purchase)/Sale of debt securities and other fixed interest securities	(3,566)	7,287
Net cash inflow on portfolio investments	4,271	4,136

Notes to the financial statements at 31 December 2007

20. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

21. Disclosure of interests

Imagine Syndicate Management Limited (ISML)

Total fees payable to ISML in respect of services provided to the syndicate amounted to £251,000 (2006: £300,000).

Profit commission of £3.34 million (2006: £2.70 million) is also due to ISML in respect of the profit on the 2005 (2004) closed year. Profit commission of £82,000 (2006: nil) has been accrued for the 2006 year of account. Profit commission is only payable on closure of the account: the 2006 year of account will normally close at 31 December 2008 and the 2007 year of account at 31 December 2009.

Expenses totalling £1.35 million (2005: £1.35 million) were recharged to the syndicate by ISML & IUSL. Expenses incurred jointly by the managing agent and the syndicate are apportioned between them on the basis of work performed and resources used. Expenses are charged to the year of account for which they are incurred.

Imagine Underwriting Services Limited (IUSL)

IUSL is a non-profit making service company that has been granted a binding authority to underwrite on behalf of Syndicate 2525 and 2526. IUSL places employers' liability, public liability and professional indemnity business with the syndicates.

IUSL receives an overrider commission on the premium underwritten on behalf of Syndicate 2525, in 2007 this amounted to £114,000 (2006: £175,000). IUSL has rebated this overrider commission to Syndicate 2525 and this is included as a credit against syndicate expenses. ISML executives have not received any benefit for acting as directors of IUSL. No overriding commission is charged on premiums underwritten on behalf of Syndicate 2526.

Deepdale Underwriting Limited (Deepdale)

Deepdale is a NameCo formed principally by I J Bremner, A G Dore, M D Hunt, D L Pratt, R C Turner and R J Wallace. Its participations on ISML managed syndicates are as follows:

	2003 (£m)	2004 (£m)	2005 (£m)	2006 (£m)	2007 (£m)
2525	–	0.423	0.327	–	–
2526	–	0.195	0.225	–	–

Notes to the financial statements at 31 December 2007

22. Related parties

In addition to ISML, Imagine has interests in other Lloyd's managing agencies and related corporate capital vehicles:

Imagine Corporate Capital Limited
Imagine Corporate Capital 2 Limited (formerly Danish Re Capital Limited)
Imagine Corporate Capital 3 Limited (formerly SOC Corporate Member No 6 Limited)
Imagine Corporate Capital 4 Limited (formerly Polder Limited)
Imagine Corporate Capital 5 Limited (formerly Fenwall Limited)
Imagine Corporate Capital 6 Limited (formerly Greenfield Underwriting Limited)

For the 2006 & 2007 years of account, Imagine Corporate Capital 2 Limited participates on Syndicate 2525 with lines of £736,999 and £250,081 respectively.

For the 2006 & 2007 years of account, Imagine Corporate Capital 3 Limited participates on Syndicate 2525 with lines of £275,000 and £600,000 respectively.

ISML is the managing agency responsible for the management of all of the following syndicates:

994, 1400, 2525, 2526 & 1923

2005 Closing Year
Reports and Accounts

Managing agent's report for the 2005 closing year of account

We are very pleased to announce that the 2005 year has closed with a profit after profit commission and before members' agent fees of £18.94 million, which is above our most recent forecast.

2005 Highlights

Allocated Capacity	£44.28m
Capacity Utilisation	94.1%
Profit	£18.94m

Active Underwriter's comments on the 2005 year of account

The result this year of 42.8% includes a substantial release from prior closed years. Throughout our years managing the Syndicate, our approach to reserving has remained absolutely consistent. Our philosophy has always been to post robust reserves at the earliest opportunity; a strategy that we implemented during 2003 and have continued to the present day. As a result, our incurred claims typically show significant early development enabling our actuaries to predict our ultimate claims position closer to our 36 month position. In turn, this has led to a reduction in our ultimate net loss ratios over the last twelve months for all the closed years. An example of this is our net loss ratio at the close for the 2003 year of account which was 31.14% and is now 26.55%

There is still considerable competition within all sectors of the market making it difficult to make pure underwriting profits. Lloyd's in general is approaching our market in a realistic manner. Outside of Lloyd's it is impossible to predict how the competition will price for either existing or new business. The packaging of business from the composites leaves very little margin for error given that most markets are suffering from strong competition. When we compare a packaged casualty premium with our stand-alone price the difference can be exponential. Too many insurers seem to prefer to give the pen away and some have all but conceded the underwriting function. At the rates we have seen, some fringe markets are accidents waiting to happen.

I realise that this is all rather downbeat given the profits we have produced in the last three underwriting years but it is clear there are still challenges to be met whilst our sector of the market continues to write business at what surely are loss making rates. I remain confident, however, that we can track sufficiently above the market to provide a good option for Lloyd's investors, mainly because I believe in the business model we operate and through which we have been able to maintain a measure of success. I credit the following for our success to date:

- The Syndicate staff have all had long associations with the classes of business underwritten, indeed some for their entire careers. The experience and knowledge that comes from this is prevalent in both underwriting and claims. As a result, we are able to judge clearly the cause and effect of our actions through hard and soft market cycles. Our accomplishments to date suggest that we are capable of maintaining adequate returns for our capital providers;

- As an organisation we recognise the importance of the claims function within our business. Although our first task is to charge the 'right' premium for the risks that we underwrite, once achieved we must ensure we manage the proceeds in an efficient and innovative manner. From the start of our tenure at 2525 we have strived to do just that and will continue to invest in and improve the claims function in any way we can. We make full use of the information gleaned from handling claims to determine the quality of risks we underwrite and to seek to improve the manner in which policyholders manage health and safety. Of the Primary risks we underwrite we lead or co-lead 99% whilst for our Excess account the figure is 83%; leading business allows us to dictate the manner in which claims are handled and ensures the above facets have a significant influence on the quality thus profitability of the account.

- As a matter of principle we do not generally delegate underwriting control. Less than 1% of our income is derived through this method and 90% of this is on the 'tariff' based Excess of Loss account. I personally do not believe the title 'Underwriter' befits one unless he is directly involved in negotiating premium, understands implicitly the exposures he is assuming and directly accepts the consequences of his actions. Far too many underwriting operations allow others to accept risk on their behalf because of concerns with the level of frictional costs in the distribution chain. The consequence of the sub standard underwriting that can ensue greatly outweighs any frictional cost savings in the business supply chain.

Managing agent's report for the 2005 closing year of account

Active Underwriter's comments on the 2005 year of account *(continued)*

- We have kept very close to the original business plan we produced for the 2003 year of account in late 2002. Over the last six years there has been remarkably little change in our business ratios other than a few percentage points here and there. I believe this consistency demonstrates our underlying belief in the business model and that our approach in difficult trading conditions remains realistic, measured and profitable.

- We have remained loyal to our broker client base in the London Market. Our intention was always to support the London Market without the need for regional representation. It is popular to increase capability regionally and many London Market operations now have or want a presence in the regions which simply serves to starve both Lloyd's and its intermediaries of business. I believe not only that we can exist without such representation but that we will flourish without the potentially considerable costs burden this can introduce. Whilst they exist and require our support, we will continue to support exclusively London intermediaries as our sole supplier. Our supporting brokers both recognise and appreciate us for it.

We are a small, niche, loyal, experienced and efficient mono-line, Lloyd's Syndicate which marks us out from the norm at Lloyd's these days. Some parts of our market feel compelled to expand, merge, grow, diversify, and to use so called economies of scale in an attempt to enhance profits at the expense of good old fashion underwriting. We shall expand when the time is right, grow organically and diversify only if we have the expertise.

I believe our philosophy illustrates that we are more than capable of delivering returns in excess of market averages despite our size. Some in the market perceive our strengths as weaknesses but we are able to point to outstanding returns to capital providers in recent years as our way of disputing these views. We will continue to operate under the same strict underwriting philosophy that has served me/my team well for almost thirty years.

I thank you all for your loyal support and look forward to your continued support in the future.

Statement of managing agent's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 (the "Lloyd's Regulations") require the managing agent to prepare syndicate underwriting year of accounts for each syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December. These syndicate underwriting year accounts must give a true and fair view of the result of the closed year of account.

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members of the same syndicate for different years of account, be equitable between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent confirms that they have complied with the above requirements in preparing the underwriting accounts of Syndicate 2525.

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 Lloyd's Regulations and Syndicate Accounting Byelaw. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the 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 website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of syndicate 2525 – 2005 closed year of account

We have audited the syndicate 2525 underwriting year accounts for the three years ended 31 December 2007 on pages 34 to 42, which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These have been prepared under the accounting policies set out therein.

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005). Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state 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 preparing the syndicate underwriting year accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities on page 32.

Our responsibility is to audit the syndicate underwriting year accounts in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate underwriting year accounts give a true and fair view of the result of the closed year of account. We also report to you if, in our opinion the managing agent's report is not consistent with the syndicate underwriting year accounts, if the managing agent has not kept proper accounting records in respect of the syndicate, if the underwriting year accounts are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

We read the managing agent's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate underwriting year 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 syndicate underwriting year 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 syndicate underwriting year 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 syndicate underwriting year accounts.

Opinion

In our opinion the syndicate underwriting year accounts give a true and fair view in accordance with UK Generally Accepted Accounting Practice of the result for the 2005 closed year of account.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

20 March 2008

Profit and loss account for the 36 months ended 31 December 2007

Technical account – general business

	Notes	2007 £000	2007 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	49,632	
Outward reinsurance premiums		(7,944)	
Net written premiums			41,688
Reinsurance to close premiums received, net of reinsurance			78,294
Allocated investment return transferred from the non-technical account			7,447
Claims incurred, net of reinsurance			
Claims paid – Gross amount		(14,941)	
– Reinsurers' share		1,674	
Net claims paid		(13,267)	
Reinsurance to close premium payable, net of reinsurance		(80,209)	
			(93,476)
Net operating expenses	5		(15,325)
Balance on the technical account for general business			18,628

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 37 to 42 form part of the financial statements.

Profit and loss account for the 36 months ended 31 December 2007

Non-technical account

	Notes	2007 £000
Balance on the general business technical account		18,628
Investment income	6	7,838
Unrealised gains on investments		709
Investment expenses and charges		(87)
Unrealised losses on investments		(450)
Realised gains on investments		62
Realised losses on investments		(625)
Allocated investment return transferred to the general business technical account		(7,447)
Profit for the closed year of account		18,628

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 37 to 42 form part of the financial statements.

Balance sheet at 31 December 2007

	Notes	2007 £000	£000
ASSETS			
Investments	7		81,163
Debtors			
Debtors arising out of direct insurance operations	8	77	
Debtors arising out of reinsurance operations	9	1,289	
Other debtors		300	
			1,666
Reinsurance recoveries anticipated on gross reinsurance premiums payable to close the account			19,779
Cash at bank and in hand			20,124
TOTAL ASSETS			122,732
LIABILITIES			
Amounts due to members	10		18,628
Reinsurance to close premiums payable to close the account – gross amount			99,989
Creditors			
Creditors arising out of direct business	11	18	
Creditors arising out of reinsurance operations	12	755	
Other creditors including taxation and social security		3,342	
			4,115
TOTAL LIABILITIES			122,732

The notes on pages 37 to 42 form part of these financial statements.

The syndicate underwriting year accounts were approved by the Board of Imagine Syndicate Management Limited on 20 March 2008 and were signed on its behalf by

I Bremner
Director
20 March 2008

Notes to the accounts for the 36 months ended 31 December 2007

1. Basis of preparation

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw and applicable Accounting Standards in the United Kingdom. Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2005 year of account which has been closed by reinsurance to close at 31 December 2007; consequently the balance sheet represents the assets and liabilities of the 2005 year of account and the profit and loss account reflects the transactions for that year of account during the 36 months period until closure.

As each syndicate year of account is a separate annual venture, there are no comparative figures.

2. Accounting policies

Underwriting Transactions

(a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of that three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

(b) The reinsurance to close premium determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

(c) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due, but not yet notified to the syndicate year of account.

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the balance of premiums written in the period to the balance sheet date that relate to unexpired risks of policies in force at that date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being produced.

(d) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

(e) The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss

Notes to the accounts for the 36 months ended 31 December 2007

2. Accounting policies *continued*

adjusters and previous experience of the cost of settling claims with similar characteristics. The amount included in respect of IBNR is based on statistical techniques of estimation applied by the syndicate's external consulting actuaries. These techniques 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 are may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated 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 syndicate used a number of statistical techniques to assist in making the above 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 rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The methods used, and the estimates made, are reviewed regularly.

(f) A provision for unexpired risks is created where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

(g) Acquistion costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums at the balance sheet date.

Investment and Investment Return

(h) Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those funds. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years 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 to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at mid-market value and deposits with credit institutions and overseas

Notes to the accounts for the 36 months ended 31 December 2007

2. Accounting policies *continued*

deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date, or the last trading day before that date.

Syndicate Operating Expenses

(i) Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned as follows:

Salaries and Related Costs – According to time of each individual spent on syndicate matters.
Accommodation Costs – According to number of personnel.
Other Costs – As appropriate in each case.

The managing agent operates a defined contribution pension scheme and its recharges to the syndicate in respect of salaries and related costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

Amounts recharged by the managing agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Taxation

(j) 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 income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members of their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of Currency Translation

(k) Transactions in US dollars, Canadian dollars and Euros are translated at the date of the transaction or at an approximation average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange at the date the transaction is processed.

Assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date.

Although transactions are translated as described above, the final result for the year of account is calculated with US Dollars, Canadian Dollars and Euros translated at the balance sheet rates of exchange.

Differences arising on the re-translation of foreign currency amounts are included in the non technical account under "other charges" or "other income", dependent on whether it is a loss or a profit.

Where Euros are sold or bought relating to the profit or loss of a closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where US dollars and Canadian dollars relating to the profit or loss of a closed underwriting account are brought or sold by members on that year, any exchange profit or loss accrues to those members.

Notes to the accounts for the 36 months ended 31 December 2007

3. Particulars of business written

TYPE OF BUSINESS

An analysis of the underwriting result before investment return is set out below:

2007	Gross premiums written and earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:					
Third party liability	49,632	(114,930)	(15,325)	91,804	11,181
Total	49,632	(114,930)	(15,325)	91,804	11,181

All business is written in the United Kingdom. Analysis by destination is not materially different from the analysis above.

4. Technical account balance before allocated investment return and operating expenses

	2007 £000
Balance attributable to business allocated to the 2005 year of account	9,921
Balance attributable to the reinsurance to close for the 2004 year of account	16,585
	26,506

5. Net operating expenses

	2007 £000
Acquisition costs	9,327
Change in deferred acquisition costs	(2)
Member's agent fee	311
Administrative expenses	5,089
Foreign exchange loss	600
	15,325

The closed year profit is stated after charging:

	2007 £000
Auditors' remuneration	
Audit services	111
	111

The auditors did not receive any other remuneration other than that stated above.

Notes to the accounts for the 36 months ended 31 December 2007

6. Investment income

	2007 £000
Income from investments	7,838
	7,838

7. Investments

	Market value 2007 £000
Debt securities and other fixed income securities	81,163
	81,163

8. Debtors arising out of direct insurance operations

	2007 £000
Due within one year – intermediaries	6
Due after one year – intermediaries	71
	77

9. Debtors arising out of reinsurance operations

	2007 £000
Due within one year	1,289
Due after one year	–
	1,289

10. Amounts due to members

	2007 £000
Profit for the closed year of account	18,628
Members' balances carried forward at 31 December 2007	18,628

Notes to the accounts for the 36 months ended 31 December 2007

11. Creditors arising out of direct insurance operations

	2007 £000
Due within one year	18
	18

12. Creditors arising out of reinsurance operations

	2007 £000
Due within one year	755
	755

Summary of closed year results at 31 December 2007

	2000 £000	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000
Syndicate allocated capacity	£25,612	£37,087	£44,786	£41,992	£73,988	£44,282
Number of underwriting members	307	307	294	280	514	421
Aggregate net premiums	£19,597	£31,667	£32,315	£29,690	£40,400	£32,361
Results for an illustrative share of £10,000	£	£	£	£	£	£
Gross premiums	9,846	11,394	9,593	11,442	8,778	11,208
Net premiums	7,651	8,539	7,215	7,070	5,460	7,308
Reinsurance to close from and earlier account	–	4,877	10,364	15,802	9,408	17,680
Net claims	(2,248)	(2,552)	(2,770)	(3,352)	(2,134)	(2,996)
Reinsurance to close	(6,890)	(12,489)	(14,971)	(16,576)	(10,582)	(18,113)
Loss on exchange	(33)	(75)	(88)	33	(4)	(135)
Syndicate operating expenses	(843)	(634)	(231)	(274)	(118)	(234)
Balance on technical account	(2,363)	(2,334)	(481)	2,703	2,030	3,510
Investment income less investment expenses and charges and investment gains less losses	635	715	688	984	642	1,681
Profit/(loss) on ordinary activities	(1,728)	(1,619)	207	3,687	2,672	5,191
Illustrative personal expenses						
Managing agent's fee	60	60	60	60	60	60
Profit commission	–	–	–	525	373	751
Other personal expenses (excluding members' agents fees)	125	100	125	125	125	125
	185	160	185	710	558	936
Profit/(loss) on ordinary activities after illustrative managing agent's fee and profit commission and illustrative personal expenses	(1,913)	(1,779)	22	2,977	2,114	4,255
Total of syndicate operating expenses, managing agent's fee and profit commission	£903	£694	£291	£859	£551	£1,045
Capacity utilised	98.46%	113.94%	95.93%	96.14%	74.03%	94.12%
Net capacity utilised	76.51%	85.39%	69.92%	77.60%	54.60%	76.14%
Underwriting loss ratio	(24.0%)	(20.5%)	(5.0%)	18.13%	16.30%	31.32%

Notes

1. . The summary of closed year results has been prepared from the audited accounts of the syndicate.
2. Personal expenses have been stated at the amount which would be incurred pro rata by individual Names writing the illustrative premium income in the syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes, has been excluded.
3. As regards the 2006 and 2007 years of account, an illustrative share of £10,000 represents 0.0200% and 0.0239% of the respective allocated capacity.

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IMAGINE

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