



## 2007 REPORT OF THE CHIEF EXECUTIVE OFFICER

I am pleased to report Imagine performed well in 2007, net income increased 43% over 2006 levels to a record \$83.7 million, the largest in our company's eight year history.

2007 will be a year remembered for its financial storms instead of natural disasters, a year where as a result of the U.S. sub-prime mortgage crisis the asset side of reinsurance company balance sheets had to absorb major dislocations in the bond and credit markets. Our investment portfolio was positioned to weather such a financial storm. While we took manageable write downs on a small allocation to alternative investments, our investment portfolio performed well overall.

### Financial Results

Many international reinsurers reported gross premium written declines in 2007 due to softening market conditions and increased competition. Imagine was no exception. Reflecting more challenging market conditions and greater competition, our gross premiums written were \$488.5 million, a 32% decline from 2006. On the positive side, we feel that our pricing adequacy has been maintained. We did not offer reduced premium rates simply to maintain the size of our portfolio and walked away from certain business we felt was under priced.

Return on equity was a healthy 13.7%, falling comfortably within our target range of 12.5% -15.0%. Imagine's return on equity has grown over the past few years as our business profitability and capital management have improved. Book value grew 11.4%.

Both our Lloyd's and International businesses were profitable. Lloyd's results were very strong reflecting good property catastrophe experience and excellent experience on Reinsurance to Close transactions written in prior years. Our International business, written outside of Lloyd's, had strong Life & Health results offset by high combined ratios on our U.S. casualty business.

### Operations

We continued to strengthen our operations during 2007 on both our Lloyd's and International platforms.

On the International side, we are expanding our Life & Health business. L&H provides us with an additional source of revenue that provides stability to our earnings. L&H pricing does not follow the cyclical nature of the P&C markets. It also provides us with further risk diversification leading to a more efficient use of our capital.

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In 2007 we hired Wayne Bidelman, an actuary and thirty year life reinsurance veteran, who joined us as head of our L&H team. Wayne has a wealth of experience in the international reinsurance markets and will lead the development of our L&H business. During 2007, Wayne has been building both his team and infrastructure leading the company to increased L&H business activity in 2008.

We reorganized our International P&C business during the year to improve our productivity and reduce our expenses. We closed our Munich office and now handle European business opportunities through our London team. We also hired Dan McKay, an experienced reinsurance veteran who has successfully written structured P&C reinsurance business for many years.

On the Lloyd's side, we continue to improve our corporate governance through the addition of two new independent non-executive directors, Clemens von Bechtolsheim and Nigel Smith, to the board of directors of Imagine Syndicate Management Limited, our Lloyd's managing agency. Nigel also chairs the ISML audit committee. The addition of Clemens and Nigel bolsters our commitment to quality corporate governance. Both gentlemen have an impressive record of success in the insurance and reinsurance industries and are welcome additions to our board.

Corporately, we continue to maintain a strong operating platform as determined by our independent rating agencies. Our A.M. Best and Fitch ratings were affirmed at A- with a Stable Outlook. Our Lloyd's operations benefit from the A.M. Best rating of A and S&P rating of A+ provided to Lloyd's market participants.

In a difficult credit market with reduced credit appetite at our traditional lenders, we successfully renewed our unsecured letter of credit facilities in the fourth quarter of 2007 allowing us to maintain our ability to write attractively priced business. The capacity of our 364 day facility remains at \$370 million. We are pleased to report that the consortium of banks that support us in this facility has grown from six to seven, demonstrating that the banking group remains supportive of Imagine's future business plans. Due to an anticipated reduction in 2008 business volumes generated by our London-based operations, we reduced our Lloyd's unsecured LOC facility from GBP 160 million to GBP 120 million. This sufficient, albeit lower, capacity allows us to focus on writing only the most profitable business.

#### Future Plans

We witnessed first hand a contraction in attractively priced business in the fourth quarter of 2007. We see that trend continuing throughout 2008 and as a result we expect to write a lower premium volume in 2008. In response, we intend to modify our business strategy by reducing the insurance risk we assume and further consolidating our International P&C business. The focus begun in 2007 on expense reduction and IT system enhancements to improve operational efficiency will continue in 2008.



We intend to use the proven expertise of Imagine's principal shareholder, Brookfield Asset Management Inc., to reallocate our investment portfolio where appropriate to equities, loan participations and other assets Brookfield believes will offer high quality, superior risk adjusted returns over the long run. Any changes to the investment portfolio would meet our primary objectives of capital preservation and maintaining adequate liquidity.

Imagine has a strong and successful track record due in large part to the dedication and hard work of its employees. Our staff and experienced management team have demonstrated over time the discipline of maintaining high underwriting standards while responding creatively to opportunities as they arise. We will continue to take advantage of a changing marketplace to build a high quality insurance and reinsurance franchise for the benefit of our clients, brokers and shareholders.

A handwritten signature in black ink, appearing to read 'Greg Morrison'.

Greg Morrison  
President and Chief Executive Officer