# NEWS RELEASE

4 August 2011 For immediate release

**Novae Group plc**

**Interim results for the six months ended 30 June 2011**

**Highlights**

Novae Group plc ("Novae"), the specialist insurance group, today announces its interim results for the six months ended 30 June 2011. Highlights:

- Underlying loss before tax and foreign exchange gains on non-monetary items/exceptional costs: £30.1 million (H1 2010: profit £13.8 million)
- Gross written premium: £387.9 million (H1 2010: £333.4 million)
- Net premium revenue: £249.9 million (H1 2010: £189.9 million)
- Combined ratio 111%, of which Q1 and Q2 major catastrophe losses account for 20% (H1 2010: 97%, major catastrophe losses 8%)
- Q1 major catastrophes reserved at US $67.7 million, below the mid point of US $60-80 million announced in the 5 May Interim Management Statement
- Q2 major catastrophe losses from US tornadoes reserved at US $12.5 million
- Investment contribution: £11.4 million (H1 2010: £16.4 million)
- Loss per share: 38.9p (H1 2010: 14.9p earnings per share)
- Interim dividend per share: 5.0p (H1 2010: 3.7p per share)
- Net assets per share: 407.1p (December 2010: 462.9p per share)
- Net tangible assets per share: 395.1p (December 2010: 449.7p per share)

Matthew Fosh, Chief Executive, today said:

"The first half of 2011 has been a gruelling period for the non-life industry, not only due to the high incidence of catastrophe losses, but also due to a still soft rating environment in a number of classes, and to persistently low investment returns. This combination has made for a tough first six months, during which it has been critical to focus not only on catastrophe classes, where rates are now responding, but also on those classes which, in the current environment, cannot deliver acceptable returns. We have closed or scaled back these classes.

Despite these market conditions, the fundamental changes made to the Group's organisational structure and business mix in the past 18 months have been the right ones. The shift in Novae's business towards shorter-tail, property, reinsurance classes, allied to greater scalability, has put the Group in a strong position to exploit the opportunities that emerge."

There will be a presentation to analysts at 11.30 a.m. today at Novae's offices on the 8th floor, 71 Fenchurch Street, London EC3M 4HH.

**For further information:**

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## NOVAE GROUP PLC

Novae is a risk-taking insurance business operating at Lloyd's via Syndicate 2007 managed by Novae Syndicates Limited. Novae has a diversified mix of business consisting of 33 specialist underwriting units forming five insurance and five reinsurance product groupings. Syndicate 2007 is rated A2 (Good) by Moody's and also benefits from the ratings given to Lloyd's. Novae is based in London and has been listed on the London Stock Exchange since 1998.

## INTERIM RESULTS STATEMENT

### Financial results

The first six months of 2011 has been a challenging period for the insurance industry. Natural peril catastrophes in Australia, New Zealand, Japan and the US contributed to the worst industry loss experience on record in the first half, with total insured catastrophe losses estimated at US $60 billion. Interest rates remained at all-time lows in the UK and US, and expectations of an early return to historically more normal rates receded during the first half. The attritional loss ratio deteriorated reflecting continuing rate weakness and a difficult claims environment.

Underlying loss before foreign exchange gain on non-monetary items and exceptional costs was £30.1 million (H1 2010: profit of £13.8 million). Loss before tax was £29.7 million (H1 2010: profit of £14.9 million) and the loss per share was 38.9p (H1 2010: earnings of 14.9p).

The combined ratio in the first half was 111% (H1 2010: 97%). This was made up of a claims ratio of 80% and an expense ratio of 31% (H1 2010: 63% and 34% respectively). Non-risk income was £1.3 million compared to £0.7 million in the first half of 2010, reflecting binder fees and other income generated by the UK trade credit unit. Underwriting contribution during the first half was a loss of £40.3 million (H1 2010: loss of £1.4 million).

Investment contribution in the period to 30 June 2011 was £11.4 million (H1 2010: £16.4 million). This represents a yield on average invested assets of 1.0%, compared to a yield on average assets in the same period last year of 1.5%.

Financing costs in the first half were £3.8 million (H1 2010: £4.6 million). Assuming no material changes in the second half, the Board currently expects financing costs for the year as a whole to be around £8 million.

Net assets per share as at 30 June 2011 were 407.1p (December 2010: 462.9p). Net tangible assets per share were 395.1p (December 2010: 449.7p).

### Underwriting

*Segmental reporting*

For the financial year ended 31 December 2010, Novae reported two operating segments under IFRS 8: property/short-tail and liability/long-tail.

Following a review of its underwriting portfolio, the Board has re-considered the way in which it manages the business in order to discharge its role as the chief operating decision maker of the Group. It has concluded that the business should be managed and reported by reference to insurance and reinsurance segments. Therefore, these two segments now form the basis of Novae's financial reporting. Comparative information for earlier periods has been re-stated on the basis of these two segments, and the comments below are prepared on this revised segmental basis.

*Underwriting contribution*

Underwriting contribution before foreign exchange movement on non-monetary items was a loss of £40.3 million (H1 2010: loss of £1.4 million). This includes reserve strengthening in respect of the 2008 and prior years of £4.4 million, increasing the loss ratio by 1.8% (H1 2010 2007 and prior years: £11.1 million of reserve releases and 5.8% reduction to the loss ratio respectively).

Gross written premium in the period has increased by 16% compared to the same period in 2010. Of the total gross written premium, £205.7 million or 53% was in respect of the insurance segment and £182.2 million or 47% in respect of the reinsurance segment, for which the renewal dates of 1 January, 1 April and 1 June are important. The Board currently expects the split for 2011 as a whole to be around 65% for the insurance segment and 35% for the reinsurance segment (excluding inwards reinstatement premiums). Gross written premium in the first half represented 61% of the planned income for the year (H1 2010: 57% of planned income).

On a whole account basis rates on renewal business in the first half were unchanged compared to a 1% increase in the equivalent period in 2010. This reflects the disproportionate amount of reinsurance business renewed on 1 January, the price of which did not reflect loss experience during the first half. In framing the 2011 business plan the Board had anticipated broadly flat rates for 2011 as a whole. Following major catastrophe losses in the first half there is growing evidence of an increase in rating in many property lines in both the insurance and reinsurance segments.

The proportion of expiring business renewed by the Group in the first half was 82%, made up of 80% for the insurance segment and 86% for the reinsurance segment (H1 2010 proportion of expiring business renewed: Group 81%, insurance 82% and reinsurance 78%).

At 30 June 2011 the Group's aggregate level of net claims reserves was £61.5 million or 7.6% higher than the total derived from a class-by-class best estimate assessment of insurance liabilities net of reinsurance recoveries (December 2010: £57.9 million or 8.2%).

*Insurance*

The insurance segment suffered relatively modest losses from major catastrophe events in the first half. However the loss experience was challenging in other respects, with the attritional claims ratio moving out from 55% in the first half of 2010 to 60% in 2011. This is reflected in an underwriting contribution of £8.6 million on net premium revenue of £171.5 million (H1 2010: underwriting contribution of £8.9 million on net premium revenue of £138.9 million).

The direct property units suffered from the impact of severe weather in the UK. The Group has set aside substantial case reserves to cover these claims in accordance with advice provided by loss adjusters. Past experience suggests that this may result in reserve releases over time. Despite a more favourable experience on other, non-UK areas of the account, direct property produced an overall loss in the first half.

Claims developments from the financial institutions unit continue to reflect the credit crunch and related losses from 2008. Critically, however, the net reserves for high profile events such as Madoff and Stanford continue to show stability. Other professional lines business has shown a mixed experience in the first half, while profits from general liability were lower than the first half of 2010.

Despite a major North Sea energy loss in the first quarter, the marine and energy units produced a strong first half profit. There was some impact from exposure to Libya on emerging market credit business, but CIFS, the UK trade credit insurance unit, continued to generate good profits.

*Reinsurance*

The result from the reinsurance segment reflects the well-publicised major catastrophe events of the first half. The segment produced an underwriting loss of £36.4 million on net premium revenue of £78.4 million (H1 2010: underwriting loss of £2.9 million on net premium revenue of £51.0 million).

Much of the impact from catastrophe events fell on the international property catastrophe reinsurance unit. As a consequence this unit is now expected to make a sizeable loss for the year as whole. The US property catastrophe reinsurance unit suffered from tornado-related losses in the second quarter. Its result for the year as a whole will be determined by the extent of windstorm activity in the second half.

The agriculture reinsurance unit continued to make progress. Aviation reinsurance benefited from a favourable claims experience and shows a marked improvement compared with the first half last year. The credit & surety reinsurance unit remains at an early stage in its development. Overall, the non-property reinsurance units made an underwriting profit in the period, partially offsetting losses incurred on international property catastrophe reinsurance business.

*Claims*

The claims ratio increased to 79.5% in the first half (H1 2010: 63.3%). This reflects in part the unprecedented series of natural peril catastrophe losses in the first half including Cyclone Yasi and Brisbane floods in Australia, the second earthquake in Christchurch, the Japanese earthquake and tsunami and the US tornadoes. Set out below are the major catastrophe events in the period and Novae's estimated exposure to each:

| Event | Date of loss | Industry loss estimate | Novae net loss estimate |
|---|---|---|---|
| Australian floods/Cyclone Yasi | January 2011 | US $3-5bn | US $9.9m |
| Christchurch earthquake | February 2011 | US $12bn | US $29.8m |
| Japanese earthquake and tsunami | March 2011 | US $20-30bn | US $28.0m |
| US tornadoes | April/May 2011 | US $17-21bn | US $12.5m |
| Total | | US $52-68bn | US $80.2m |

Applying the 30 June exchange rate of £1:US $1.61, major catastrophe losses contributed 19.9% to the Group's net claims ratio in the first half. The attritional claims ratio, excluding the effects of these events, was 59.6% (H1 2010: 55.2%).

*Outwards reinsurance protections*

Outwards reinsurance cost in the first half was £54.2 million representing 14.0% of gross written premiums, as follows:

| | 30 June 2011 £m | 30 June 2010 £m | 31 December 2010 £m |
|---|---|---|---|
| Gross written premiums | 387.9 | 333.4 | 587.7 |
| Outwards reinsurance premiums | 54.2 | 72.4 | 93.8 |
| Outwards reinsurance spend (%) | 14.0% | 21.7% | 16.0% |

Core reinsurance programmes were successfully placed on 1 January at slightly lower prices than the expiring programmes. However, it has become clear that back-up capacity in US and worldwide property treaty has become both scarcer and more expensive since the start of the year.

*Expenses*

The expense charge for the first half was £92.1 million, made up of acquisition costs of £59.1 million and operating costs of £33.0 million (H1 2010: £71.3 million, £44.3 million and £27.0 million respectively).

Acquisition costs of £59.1 million represent 24% of net premium revenue. The acquisition cost ratio over recent periods compares as follows:

| | **30 June 2011 £m** | 30 June 2010 £m | 31 December 2010 £m |
|---|---|---|---|
| Acquisition costs | 59.1 | 44.3 | 100.1 |
| Net premium revenue | 249.9 | 189.9 | 430.6 |
| Acquisition cost ratio (%) | 23.6% | 23.3% | 23.2% |

As Novae increases inwards reinsurance business as a proportion of gross written premium, its acquisition cost ratio should fall to around 21-22%. However, a number of widely-reported initiatives by major brokers to seek additional remuneration from carriers, over and above traditional brokerage paid by assureds, may offset the benefit to the acquisition cost ratio that would accrue following changes to the Group's business mix.

The Group's operating costs in the first half of 2011 may be analysed as follows:

| Expense type | **30 June 2011 £m** | 30 June 2010 £m |
|---|---|---|
| Pre-bonus employee costs | 13.9 | 13.8 |
| IT costs | 2.8 | 2.5 |
| Establishment costs | 1.9 | 1.7 |
| Legal and professional costs | 1.3 | 0.8 |
| Other costs | 2.4 | 1.4 |
| | 22.3 | 20.2 |
| Lloyd's and other regulatory costs | 5.4 | 6.1 |
| Bonus and equity incentive charges | 10.6 | 6.3 |
| Amortisation of intangible assets | 0.7 | 0.7 |
| Total cost base | 39.0 | 33.3 |
| Deferral/claims handling adjustments | (6.4) | (5.9) |
| Syndicate ownership adjustments | (0.2) | (0.6) |
| Operating expenses before exceptional costs | 32.4 | 26.8 |
| Exceptional costs | 0.6 | 0.2 |
| Operating expenses | 33.0 | 27.0 |

Of total operating expenses, £19.9 million are allocated by segment and £13.1 million are unallocated by segment (H1 2010: £19.4 million and £7.6 million respectively). On the basis of operating costs allocated by segment, the Group's operating cost ratio, expressed as a percentage of net premium revenue, has developed as follows:

| | **30 June 2011 £m** | 30 June 2010 £m | 31 December 2010 £m |
|---|---|---|---|
| Operating costs allocated by segment | 19.9 | 19.4 | 36.3 |
| Net premium revenue | 249.9 | 189.9 | 430.6 |
| Operating cost ratio (%) | 8.0% | 10.2% | 8.4% |

**Investments**

Investment contribution in the first half was £11.4 million, equivalent to a 1.0% return on average invested assets of £1,128.0 million (H1 2010: £16.4 million, 1.5% and £1,058.1 million respectively).

Novae has an above average investment performance compared to its peer group. The composition of investment return in the first half is set out below:

| | **30 June 2011 £m** | 30 June 2010 £m |
|---|---|---|
| Interest income | **17.0** | 15.0 |
| Net (losses)/gains on fixed income investments | **(5.2)** | 1.8 |
| Investment management costs | **(0.4)** | (0.4) |
| Total | **11.4** | 16.4 |

The Group has modestly increased its exposure to strong investment grade corporate issuers and reduced its weighting to cash and supranational issuers. The Board's targeted return for the year as a whole is 1.50%.

The profile of the Group's investment portfolio at 30 June 2011 was as follows:

| Investment type | **30 June 2011 £m** | 30 June 2010 £m |
|---|---|---|
| Corporate and supranational issuers | **286.8** | 449.5 |
| Cash | **246.6** | 251.6 |
| Government bonds and bills | **207.2** | 175.7 |
| Certificates of deposit and floating rate notes | **164.8** | 12.7 |
| Lloyd's overseas deposits | **135.0** | 83.1 |
| Government agencies | **53.9** | 95.3 |
| Covered ABS | **35.8** | - |
| Total | **1,130.1** | 1,067.9 |

Investment assets can be analysed by rating as follows:

| S&P rating equivalent | **%** | **30 June 2011 £m** | % | 30 June 2010 £m |
|---|---|---|---|---|
| AAA rated | **33** | **374.9** | 46 | 493.5 |
| AA rated | **12** | **130.8** | 16 | 166.3 |
| A rated | **6** | **68.4** | 5 | 57.2 |
| BBB+ or better rated | **1** | **9.8** | - | 3.5 |
| Total bond portfolio | **52** | **583.9** | 67 | 720.5 |
| Cash, certificates of deposit and floating rate notes | **36** | **411.2** | 25 | 264.3 |
| Total managed portfolios | **88** | **995.1** | 92 | 984.8 |
| Lloyd's overseas deposits | **12** | **135.0** | 8 | 83.1 |
| Total | **100** | **1,130.1** | 100 | 1,067.9 |

Novae has no exposure to sovereign debt issued by Portugal, Italy, Ireland, Greece or Spain.

As at 30 June 2011 the average duration across the Group's portfolio was 0.8 years, having been reduced from 1.2 years in June 2010 and 0.9 years in December 2010. The yield to maturity on the Group's aggregate portfolio was 1.2% (H1 2010: 1.4%). Novae's investment assets were held as to 40% in sterling, 36% in US dollars and 24% in other currencies (H1 2010: 49%, 35% and 16% respectively).

**Tax**

Novae recognised a tax credit of £4.8 million in the six months to 30 June 2011 (H1 2010: £4.1 million tax charge). This mainly relates to the recognition of a deferred tax asset relating to losses in the period of £6.6 million, partially offset by a fall in the carrying value of existing deferred tax assets of £1.4 million relating to the reduction in the standard UK corporation tax rate to 26%.

The deferred tax asset held on the balance sheet at 30 June 2011 is £41.5 million (December 2010: £36.3 million). Utilisation of these deferred tax losses means that no significant cash tax is payable in the immediate future.

No credit has been taken for capital losses of £45.8 million (December 2010: no credit taken for unchanged capital losses of £45.8 million).

In its 2010 annual report Novae identified the need to improve its prospective tax rate if it was to avoid a competitive disadvantage compared to its peer group, most members of which have re-domiciled to tax-advantaged jurisdictions. Since March 2011, a combination of the Government's proposal to reduce UK corporation tax still further, ultimately to 23%, combined with a review of the taxation of profits earned overseas, may significantly improve the UK's tax competitiveness over the medium term. As a result, the Board has decided to defer any final decision on a potential change of domicile until these policy issues are resolved.

## Balance sheet

Shareholders' funds at 30 June 2011 were £261.7 million. Combined with debt and bank facilities of £133.3 million, the total capital resources available to the Group were £395.0 million compared to the Group's Lloyd's June 2011 capital requirement of £331.8 million:

| Sources of capital | **30 June 2011 £m** | 31 December 2010 £m |
|---|---|---|
| Shareholders' funds | **261.7** | 293.6 |
| 2017 notes | **67.9** | 68.8 |
| 2034 notes | **22.4** | 22.9 |
| Bank letter of credit | **28.0** | 28.7 |
| Undrawn bank facilities | **15.0** | 15.0 |
| Total capital resources | **395.0** | 429.0 |

The long-term nature of the Group's debt capital and its undrawn bank facilities provide significant flexibility to respond rapidly to changing market conditions or other opportunities.

## Interim dividend

The Group announced a revised dividend policy in March 2011. Assuming a normal level of catastrophe losses, this revised policy is likely to represent a payout ratio of nearer 50% of profits after tax rather than the previous 30%, subject to solvency and regulatory requirements.

Following adoption of this policy, the Board has declared an interim dividend of 5.0p per share (H1 2010: 3.7p per share). This will be paid on 5 October 2011 to shareholders on the register on 9 September 2011.

As a result inter alia of the exceptional level of catastrophe losses in the first half, the interim dividend is uncovered. However, as the Board has previously stated, its level of confidence in the Group is such that it is prepared to allow cover to fall to support a progressive dividend policy unless underwriting conditions are so attractive that to use capital to pay an uncovered dividend is not in the best interests of Novae and its shareholders.

## Currency assets and liabilities

Novae is exposed to foreign currency risk. Its principal exposure is to the US dollar, which accounted for 33% of gross written premiums in the first half (H1 2010: 42%). 45% of gross written premiums arise in sterling, 12% in euros and the balance in other currencies including the Canadian and Australian dollars (H1 2010: 39% and 10% respectively).

IFRS requires non-monetary items to be carried at historical exchange rates rather than at closing rates as for monetary items. Non-monetary items comprise unearned premiums, reinsurers' share of unearned premiums and deferred acquisition costs. During the period the gain on these items was £1.0 million (H1 2010: £1.3 million gain). The exchange rate was £1:US $1.57 at 31 December 2010; this had moved to £1:US $1.61 at 30 June 2011.

## Principal risks

The principal risks that the Group faces are described in the risk disclosures set out on pages 68 to 92 of the 2010 annual report. There have been no changes to these principal risks during the six months ended 30 June 2011 except where specifically mentioned in this document.

Novae manages and monitors its risk exposures in categories that closely follow those used by the FSA. Its principal risk pillars remain as follows:

- Insurance risk (made up of underwriting and reserving risk)
- Credit risk
- Market risk

- Liquidity risk
- Capital risk
- Regulatory and operational risk
- Strategy and group risk

Insurance risk remains the principal source of day-to-day risk to the Group. From its standard range of realistic disaster scenarios, the largest modelled loss as at 1 April 2011 is the in-house generic Florida windstorm event causing an insured industry loss of US $75 billion. For such an event Novae's willingness to lose is US $120 million and its modelled loss as at 1 April was US $105 million. Applying the exchange rate of £1: US $1.61 prevailing on 30 June 2011, this would represent a sterling loss of £65.2 million, equivalent to approximately 25% of shareholders' funds on 30 June 2011.

Regulatory change represents an additional significant risk to the Group with the approaching Solvency II implementation date of 1 January 2013 (although there has been speculation this may be deferred). The capital implications of the Solvency II regime and their interaction with the Lloyd's capital setting process, particularly after a period of significant catastrophe losses, remain unclear. They are compounded by the low interest rate environment. A significant change in the Group's solvency capital requirements remains a risk over which the Board has limited control. In addition, the organisational, governance and reporting burdens of Solvency II are significant.

**Solvency II**

Novae has continued its preparations for the new Solvency II regime which is scheduled to become effective on 1 January 2013. The Group is heavily focussed on the implementation phase of its Solvency II project, with a number of the changes required by the new regime being implemented across the business.

One of the central elements of the new regime is the embedding of Novae's own capital model across all areas the Group. This is essential not only to satisfy the use test, a major element of the new regime, but also to allow for more consistent, evidence-based decision-making which in turn will become increasingly important as the Group grows in scale, complexity and operational reach.

Novae has a dedicated Solvency II project office with four full-time staff with specialist support and benchmarking provided by external consultants. In addition, some 15 senior executives across the Group are devoting significant amounts of time to Novae's Solvency II project. The internal and external costs of the Solvency II project in the six months to 30 June 2011 were £0.7 million (H1 2010: £0.2 million), and are expected to total £2.3 million for 2011 as a whole.

**Strategic framework**

Novae's strategic goal is to increase net asset value per share consistent with a pre-tax return on equity in line with its peer group.

The Group has undertaken a number of initiatives since December 2009 to achieve its strategic goal, including:

- Returning £32.9 million of capital (equivalent to 45p per share) to shareholders via a B and C Share scheme announced in December 2010. This substantially addressed the Group's surplus capital issue
- Reinsuring to close the 2002 and prior years of legacy Syndicates 1007 and 1241 in February 2011
- Changing the Group's business mix so as to reduce the proportion of liability gross written premium from 70% to a targeted 40-50%, and thus increasing the proportion of property business from 30% to at least 50%
- Increasing Novae's risk appetite by reducing its outwards reinsurance spend from 22-23% to under 20% of gross written premiums; and by doubling the amount of inwards reinsurance business to around one third of the whole
- Reducing the Group's reliance on investment contribution by increasing the targeted underwriting contribution through setting a target cross-cycle net claims ratio of 55%, of which the attritional net claims ratio is 50% and the catastrophe loss allowance around 5%

- Closing or scaling back underwriting units which have proven unable to meet the Group's expectations of return on equity. Novae has withdrawn from management liability, European marine reinsurance and fleet motor
- Cutting costs through a combination of business simplification and concentration of resources on underwriting units with a proven record of profitability or where a clear route to profitability has been identified
- Limiting the Group's dependence on major brokers by supporting niche business producers and partners in the UK and overseas

Novae is constantly reviewing a number of business development ideas ranging from team hires and process efficiency projects to potentially significant acquisition and financing opportunities. The Board is prepared to endorse such projects only if they are likely to make a significant contribution to the objectives set out above.

**Outlook**

The first half of 2011 has been challenging for the non-life industry. Aside from major catastrophes, many classes remain under pressure from rate softening and historically low interest rates. Novae has some consistently highly profitable units writing liability business, but certain other liability classes have proven unable to meet the Group's expectations of return on equity across the cycle, and they continue to hold back the Group's overall performance. These classes have been closed or scaled back.

Over the past 18 months, as important changes to the Group's business were underway, Novae and indeed the non-life industry have been subjected to a tough test, starting with the Chile earthquake in February 2010 and continuing throughout the first half of 2011. Novae has withstood that test and now it is in a strong position to take advantage of opportunities that present themselves. There is growing evidence of rate hardening in property classes, especially in loss-exposed reinsurance. Novae's ability to exploit emerging opportunities has been greatly enhanced by the measures taken since 2010, and it is this that gives the Group confidence in its ability to deliver for shareholders.

Matthew Fosh
Group Chief Executive
4 August 2011

## RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF-YEARLY FINANCIAL REPORT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU
- the interim management report includes a fair review of the information required by:
    - (a) section 4.2.7 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year
    - (b) section 4.2.8 of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so

By order of the Board
M J Turvey
Secretary
4 August 2011

## CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2011

| | Note | **Six months ended 30 June 2011 £m** | Six months ended 30 June 2010 £m | Year ended 31 December 2010 £m |
|---|---|---|---|---|
| Gross premium revenue | | **286.8** | 241.9 | 528.7 |
| Less premium ceded to reinsurers | | **(36.9)** | (52.0) | (98.1) |
| **Net premium revenue** | | **249.9** | 189.9 | 430.6 |
| Investment contribution | | **11.4** | 16.4 | 25.4 |
| Fees and commission income | | **1.3** | 0.7 | 1.4 |
| **Total revenue (net of premium ceded to reinsurers)** | | **262.6** | 207.0 | 457.4 |
| Gross claims incurred | | **(210.0)** | (167.6) | (338.8) |
| Reinsurers' share of claims incurred | | **11.3** | 47.4 | 81.4 |
| **Net claims incurred** | | **(198.7)** | (120.2) | (257.4) |
| Policy acquisition costs | | **(59.1)** | (44.3) | (100.1) |
| Operating expenses | | **(33.0)** | (27.0) | (60.1) |
| Net foreign exchange gains | | **2.3** | 4.0 | 4.0 |
| **Operating (loss)/profit** | | **(25.9)** | 19.5 | 43.8 |
| Financing charge | | **(3.8)** | (4.6) | (8.7) |
| **(Loss)/profit before income taxes** | | **(29.7)** | 14.9 | 35.1 |
| **Comprises:** | | | | |
| **Underlying (loss)/profit before income taxes and gain/(loss) on non-monetary items/exceptional costs** | | **(30.1)** | 13.8 | 36.2 |
| Notional currency gain/(loss) on non-monetary items | | **1.0** | 1.3 | (0.2) |
| Exceptional costs | | **(0.6)** | (0.2) | (0.9) |
| Income taxes | | **4.8** | (4.1) | (10.5) |
| **(Loss)/profit for the period attributable to shareholders** | | **(24.9)** | 10.8 | 24.6 |
| **(Losses)/earnings per share** | | | | |
| Basic (losses)/earnings per share | 4 | **(38.9)p** | 14.9p | 34.1p |
| Diluted (losses)/earnings per share | 4 | **(38.9)p** | 14.8p | 33.8p |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2011

| | Note | **Six months ended 30 June 2011 £m** | Six months ended 30 June 2010 (as restated) (see note 1) £m | Year ended 31 December 2010 £m |
|---|---|---|---|---|
| (Loss)/profit attributable to shareholders | | **(24.9)** | 10.8 | 24.6 |
| Other comprehensive income: | | | | |
| Changes in fair value of cash flow hedges | 8 | **(2.1)** | (2.6) | (2.5) |
| Total comprehensive (loss)/income recognised | | **(27.0)** | 8.2 | 22.1 |

## CONDENSED CONSOLIDATED BALANCE SHEET
as at 30 June 2011

| | Note | **30 June 2011 £m** | 30 June 2010 (as restated) (see note 1) £m | 31 December 2010 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Intangible assets | | **7.7** | 9.0 | 8.4 |
| Property, plant and equipment | | **1.2** | 1.6 | 1.5 |
| Deferred acquisition costs | | **72.2** | 50.6 | 50.4 |
| Deferred tax assets | | **41.5** | 42.5 | 36.3 |
| Reinsurance contracts | 5 | **381.8** | 423.5 | 369.7 |
| Insurance and other receivables | | **355.0** | 305.5 | 221.1 |
| Financial assets | 6 | **748.5** | 733.2 | 728.8 |
| Cash and cash equivalents | | **381.6** | 334.7 | 415.2 |
| **Total assets** | | **1,989.5** | 1,900.6 | 1,831.4 |
| | | | | |
| **Liabilities** | | | | |
| Insurance contracts | 7 | **(1,544.9)** | (1,372.5) | (1,342.5) |
| Financial liabilities, due after one year | | | | |
| - Loan notes | 8 | **(22.4)** | (24.0) | (22.9) |
| - Subordinated notes | 8 | **(67.9)** | (69.3) | (68.8) |
| Insurance and other payables | | **(92.6)** | (118.6) | (103.6) |
| **Total liabilities** | | **(1,727.8)** | (1,584.4) | (1,537.8) |
| **Net assets** | | **261.7** | 316.2 | 293.6 |
| | | | | |
| **Shareholders' equity** | | | | |
| Share capital | 9 | **73.2** | 73.2 | 73.2 |
| Share premium | | **-** | 67.1 | 34.2 |
| Other reserves | | **101.7** | 69.6 | 69.6 |
| Retained earnings | | **86.8** | 106.3 | 116.6 |
| **Total shareholders' equity** | | **261.7** | 316.2 | 293.6 |
| | | | | |
| **Net asset value per share** | 4 | **407.1p** | 493.1p | 462.9p |
| **Net tangible asset value per share** | 4 | **395.1p** | 479.0p | 449.7p |

These financial statements were approved by the Board of Directors on 4 August 2011 and were signed on its behalf by:

**J P Hastings-Bass**
Chairman

**O R P Corbett**
Group Finance Director

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2011

| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| **Six months ended 30 June 2011** | | | | | |
| Total recognised loss for the period | - | - | - | (27.0) | (27.0) |
| Decrease in share-based payment reserve | - | - | - | (0.8) | (0.8) |
| Transactions with owners recorded directly in equity: | | | | | |
| - Acquisition of treasury shares, net of shares awarded | - | - | - | 3.6 | 3.6 |
| - Cancellation of share premium account | - | (34.2) | - | 34.2 | - |
| - Redemption of B and C Shares | - | - | 32.1 | (32.1) | - |
| - Dividends paid (note 10) | - | - | - | (7.7) | (7.7) |
| Net (decrease)/increase in equity | - | (34.2) | 32.1 | (29.8) | (31.9) |
| As at 31 December 2010 | 73.2 | 34.2 | 69.6 | 116.6 | 293.6 |
| **As at 30 June 2011** | **73.2** | **-** | **101.7** | **86.8** | **261.7** |

| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| **Six months ended 30 June 2010 (as restated)** | | | | | |
| Total recognised income for the period | - | - | - | 8.2 | 8.2 |
| Decrease in share-based payment reserve | - | - | - | (2.6) | (2.6) |
| Transactions with owners recorded directly in equity: | | | | | |
| - Acquisition of treasury shares, net of shares awarded | - | - | - | 2.7 | 2.7 |
| - Dividends paid (note 10) | - | - | - | (5.8) | (5.8) |
| Net increase in equity | - | - | - | 2.5 | 2.5 |
| As at 31 December 2009 | 73.2 | 67.1 | 69.6 | 103.8 | 313.7 |
| As at 30 June 2010 | 73.2 | 67.1 | 69.6 | 106.3 | 316.2 |

| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| **Year ended 31 December 2010** | | | | | |
| Total recognised income for the year | - | - | - | 22.1 | 22.1 |
| Decrease in share-based payment reserve | - | - | - | (1.1) | (1.1) |
| Transactions with owners recorded directly in equity: | | | | | |
| - Acquisition of treasury shares, net of shares awarded | - | - | - | - | - |
| - Issue of B and C shares | - | (32.9) | - | - | (32.9) |
| - Dividends paid (note 10) | - | - | - | (8.2) | (8.2) |
| Net (decrease)/increase in equity | - | (32.9) | - | 12.8 | (20.1) |
| As at 31 December 2009 | 73.2 | 67.1 | 69.6 | 103.8 | 313.7 |
| As at 31 December 2010 | 73.2 | 34.2 | 69.6 | 116.6 | 293.6 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2011

| | **Six months ended 30 June 2011** | Six months ended 30 June 2010 | Year ended 31 December 2010 |
|---|---|---|---|
| | **£m** | £m | £m |
| (Loss)/profit before income taxes | **(29.7)** | 14.9 | 35.1 |
| Adjustments for non-cash items and items separately disclosed | | | |
| - Foreign exchange on investment assets | **1.5** | (36.8) | (18.8) |
| - Financing costs | **3.8** | 4.6 | 8.7 |
| - Amortisation charge | **0.7** | 0.7 | 1.3 |
| - Investment income | **(11.4)** | (16.4) | (25.4) |
| - Depreciation charge | **0.8** | 0.6 | 1.0 |
| - Employee equity incentives | **4.6** | 1.2 | 2.8 |
| **Changes in operating assets and liabilities** | | | |
| - Change in insurance contract liabilities | **202.4** | 162.5 | 132.5 |
| - Change in insurance receivables | **(122.9)** | (113.7) | (43.9) |
| - Change in other receivables | **(14.1)** | (10.4) | (8.5) |
| - Change in deferred acquisition costs | **(21.8)** | (17.9) | (17.7) |
| - Change in reinsurance contract assets | **(12.1)** | (34.8) | 19.0 |
| - Change in insurance and other payables | **23.9** | 51.1 | 1.5 |
| - Change in market value of loan notes | **(0.5)** | 1.6 | 0.5 |
| - Change in market value of financial assets | **14.9** | 2.5 | (0.7) |
| - Income taxes paid | **(0.4)** | (1.8) | (2.2) |
| - Other non-cash movements | **1.7** | 2.6 | 0.1 |
| **Net cash from operating activities** | **41.4** | 10.5 | 85.3 |
| **Cash flows from investing activities** | | | |
| - Purchase of tangible fixed assets | **(0.5)** | (1.1) | (1.8) |
| - Purchase of intangible fixed assets | **-** | - | (2.3) |
| - Interest received | **20.1** | 10.9 | 35.6 |
| - Purchase of financial assets | **(537.0)** | (673.8) | (1,083.2) |
| - Proceeds from sale of financial assets | **495.5** | 694.8 | 1,102.7 |
| **Net cash (used in)/from investing activities** | **(21.9)** | 30.8 | 51.0 |
| **Cash flows from financing activities** | | | |
| - Acquisition of treasury shares | **(4.2)** | (6.4) | (9.1) |
| - Redemption of subordinated notes | **(0.6)** | - | - |
| - Capital reduction | **(32.1)** | - | - |
| - Interest paid | **(7.0)** | (6.6) | (8.4) |
| - Dividends paid | **(7.7)** | (5.8) | (8.2) |
| **Net cash used in financing activities** | **(51.6)** | (18.8) | (25.7) |
| **Net (decrease)/increase in cash and cash equivalents** | **(32.1)** | 22.5 | 110.6 |
| **Opening cash and cash equivalents** | **415.2** | 296.7 | 296.7 |
| Effect of exchange rate changes on cash and cash equivalents | **(1.5)** | 15.5 | 7.9 |
| **Closing cash and cash equivalents** | **381.6** | 334.7 | 415.2 |

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 1) Significant accounting policies

The unaudited interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU, and on the basis of the accounting policies set out in the annual report of Novae Group plc for the year ended 31 December 2010.

The consolidated financial statements include the results of Novae Group plc and all its subsidiary undertakings made up to the same accounting date.

The financial information contained in these interim results does not constitute statutory accounts of Novae within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for Novae Group plc for the year ended 31 December 2010 have been delivered to the Registrar of Companies. The auditors have reported on the accounts, their report was unqualified and did not constitute a statement under Section 498 (2) or (3) of the Companies Act 2006.

**Basis of preparation**

The financial statements are presented in pounds sterling unless otherwise stated. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of these factors allow judgements to be made regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Uncertainties exist where current valuations are dependent on estimates of future cash flows. This applies to the share based payment charge and financial assets and liabilities held at fair value. The accounting policies have been applied consistently to all periods presented in this report.

The Group's greatest area of uncertainty relates to insurance contract liabilities (see note 7).

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Prior year restatement**

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised within other comprehensive income. Any ineffective proportion of the hedge is recognised immediately in the income statement. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement. The use of cash flow hedge derivative instruments is disclosed more fully in note 8.

Cash flow hedge derivatives have historically been used. At 31 December 2010, £2.5 million was recognised within other comprehensive income as the mark-to-market loss on derivative instruments comprising an effective cash flow hedge. However, the mark-to-market loss at 30 June 2010 of £2.6 million was not recognised in the 30 June 2010 interim financial statements. Accordingly, a prior year restatement to certain comparative financial information reported at 30 June 2010 has been made within these interim financial statements. The effect of this restatement is to increase current liabilities by £2.6 million with a corresponding loss taken through the statement of comprehensive income and debited to the cash flow hedging reserve. The restatement had no effect on the income statement or cash flow statement for the six months to 30 June 2010. The mark-to-market valuation of cash flow hedges at 31 December 2009 was not material.

**Revised and new reporting standards**

No revised disclosures and measurements have been adopted, as a result of new or amended international standards and interpretations that the Group had not previously chosen to adopt in preparing the financial statements for the year ended 31 December 2010.

## 2) Segmental information

The Group's operating segments are organised into similar product and service types. The Board is the Group's chief operating decision maker. This is due to the Board being the ultimate decision maker for future resource allocation to the Group's underwriting segments. Monthly management information is reported to the Board on a segmental basis to aid its assessment of the Group's performance.

Segment results, assets and liabilities include items that can be allocated on a reasonable basis. Unallocated items comprise insurance working capital, central items and the deferred tax asset.

During the period, the Group revised its internal reporting structure. The operating segments have been revised to reflect this (with the comparatives restated accordingly). The Group comprises the following operating segments:

*(i) Insurance*

This segment consists of five product groupings as follows:

- financial institutions/professional indemnity
- general liability and motor
- marine and energy
- political and credit
- property

*(ii) Reinsurance*

This segment consists of five product groupings as follows:

- agriculture
- credit and surety
- general liability and motor
- marine and aviation
- property

## a) Segmental statement of comprehensive income

The segment results for the six months ended 30 June 2011 are as follows:

| | **Insurance** | **Reinsurance** | **Total reportable segments** | **Unallocated by segment** | **Total** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Gross written premium | **205.7** | **182.2** | **387.9** | **-** | **387.9** |
| Gross premium revenue | **198.6** | **88.2** | **286.8** | **-** | **286.8** |
| Net premium revenue | **171.5** | **78.4** | **249.9** | **-** | **249.9** |
| Net claims incurred | **(104.0)** | **(94.7)** | **(198.7)** | **-** | **(198.7)** |
| Investment income | **7.9** | **3.3** | **11.2** | **0.2** | **11.4** |
| Fees and commission income | **-** | **-** | **-** | **1.3** | **1.3** |
| Policy acquisition costs | **(44.5)** | **(14.6)** | **(59.1)** | **-** | **(59.1)** |
| Operating expenses | **(14.4)** | **(5.5)** | **(19.9)** | **(13.1)** | **(33.0)** |
| Net foreign exchange gains | **-** | **-** | **-** | **2.3** | **2.3** |
| Operating profit/(loss) | **16.5** | **(33.1)** | **(16.6)** | **(9.3)** | **(25.9)** |
| Financing costs | **-** | **-** | **-** | **(3.8)** | **(3.8)** |
| Profit/(loss) before income taxes | **16.5** | **(33.1)** | **(16.6)** | **(13.1)** | **(29.7)** |
| Income taxes | **-** | **-** | **-** | **4.8** | **4.8** |
| Profit/(loss) after income taxes | **16.5** | **(33.1)** | **(16.6)** | **(8.3)** | **(24.9)** |

The segment results for the six months ended 30 June 2010 are as follows:

| | Insurance | Reinsurance | Total reportable segments | Unallocated by segment | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Gross written premium | 205.4 | 128.0 | 333.4 | - | 333.4 |
| Gross premium revenue | 178.1 | 63.8 | 241.9 | - | 241.9 |
| Net premium revenue | 138.9 | 51.0 | 189.9 | - | 189.9 |
| Net claims incurred | (80.0) | (40.2) | (120.2) | - | (120.2) |
| Investment income | 12.1 | 4.3 | 16.4 | - | 16.4 |
| Fees and commission income | - | - | - | 0.7 | 0.7 |
| Policy acquisition costs | (35.9) | (8.4) | (44.3) | - | (44.3) |
| Operating expenses | (14.1) | (5.3) | (19.4) | (7.6) | (27.0) |
| Net foreign exchange gains | - | - | - | 4.0 | 4.0 |
| Operating profit/(loss) | 21.0 | 1.4 | 22.4 | (2.9) | 19.5 |
| Financing costs | - | - | - | (4.6) | (4.6) |
| Profit/(loss) before income taxes | 21.0 | 1.4 | 22.4 | (7.5) | 14.9 |
| Income taxes | - | - | - | (4.1) | (4.1) |
| Profit/(loss) after income taxes | 21.0 | 1.4 | 22.4 | (11.6) | 10.8 |

The segment results for the year ended 31 December 2010 are as follows:

| | Insurance | Reinsurance | Total reportable segments | Unallocated by segment | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Gross written premium | 420.0 | 167.7 | 587.7 | - | 587.7 |
| Gross premium revenue | 386.2 | 142.5 | 528.7 | - | 528.7 |
| Net premium revenue | 308.3 | 122.3 | 430.6 | - | 430.6 |
| Net claims incurred | (158.6) | (98.8) | (257.4) | - | (257.4) |
| Investment income | 19.2 | 6.1 | 25.3 | 0.1 | 25.4 |
| Fees and commission income | - | - | - | 1.4 | 1.4 |
| Policy acquisition costs | (80.3) | (19.8) | (100.1) | - | (100.1) |
| Operating expenses | (29.5) | (6.8) | (36.3) | (23.8) | (60.1) |
| Net foreign exchange gains | - | - | - | 4.0 | 4.0 |
| Operating profit/(loss) | 59.1 | 3.0 | 62.1 | (18.3) | 43.8 |
| Financing costs | - | - | - | (8.7) | (8.7) |
| Profit/(loss) before income taxes | 59.1 | 3.0 | 62.1 | (27.0) | 35.1 |
| Income taxes | - | - | - | (10.5) | (10.5) |
| Profit/(loss) after income taxes | 59.1 | 3.0 | 62.1 | (37.5) | 24.6 |

**b) Segmental balance sheet analysis**

Relevant balance sheet captions are deemed to be attributable to the business segments as follows (investment assets comprise financial assets, cash and cash equivalents):

| **As at 30 June 2011** | Insurance £m | Reinsurance £m | Total reportable segments £m | Unallocated by segment £m | Total £m |
|---|---|---|---|---|---|
| Reinsurers' share of claims outstanding | **291.5** | **42.1** | **333.6** | **-** | **333.6** |
| Investment assets | **607.8** | **470.6** | **1,078.4** | **51.7** | **1,130.1** |
| Other assets | **271.6** | **130.7** | **402.3** | **123.5** | **525.8** |
| Total assets | **1,170.9** | **643.4** | **1,814.3** | **175.2** | **1,989.5** |
| Gross provision for claims outstanding | **891.0** | **310.4** | **1,201.4** | **-** | **1,201.4** |
| Other liabilities | **261.5** | **155.2** | **416.7** | **109.7** | **526.4** |
| Shareholders' funds | **-** | **-** | **-** | **261.7** | **261.7** |
| Total liabilities | **1,152.5** | **465.6** | **1,618.1** | **371.4** | **1,989.5** |

| As at 30 June 2010 | Insurance £m | Reinsurance £m | Total reportable segments £m | Unallocated by segment £m | Total £m |
|---|---|---|---|---|---|
| Reinsurers' share of claims outstanding | 310.9 | 57.8 | 368.7 | - | 368.7 |
| Investment assets | 689.3 | 370.3 | 1,059.6 | 8.3 | 1,067.9 |
| Other assets | 269.5 | 79.3 | 348.8 | 115.2 | 464.0 |
| Total assets | 1,269.7 | 507.4 | 1,777.1 | 123.5 | 1,900.6 |
| Gross provision for claims outstanding | 872.3 | 226.8 | 1,099.1 | - | 1,099.1 |
| Other liabilities | 284.0 | 93.9 | 377.9 | 107.4 | 485.3 |
| Shareholders' funds | - | - | - | 316.2 | 316.2 |
| Total liabilities | 1,156.3 | 320.7 | 1,477.0 | 423.6 | 1,900.6 |

| As at 31 December 2010 | Insurance £m | Reinsurance £m | Total reportable segments £m | Unallocated by segment £m | Total £m |
|---|---|---|---|---|---|
| Reinsurers' share of claims outstanding | 293.5 | 45.4 | 338.9 | - | 338.9 |
| Investment assets | 598.7 | 441.4 | 1,040.1 | 103.9 | 1,144.0 |
| Other assets | 195.6 | 55.7 | 251.3 | 97.2 | 348.5 |
| Total assets | 1,087.8 | 542.5 | 1,630.3 | 201.1 | 1,831.4 |
| Gross provision for claims outstanding | 856.9 | 242.4 | 1,099.3 | - | 1,099.3 |
| Other liabilities | 238.0 | 50.3 | 288.3 | 150.2 | 438.5 |
| Shareholders' funds | - | - | - | 293.6 | 293.6 |
| Total liabilities | 1,094.9 | 292.7 | 1,387.6 | 443.8 | 1,831.4 |

## 3) Seasonality of operations

Within a financial year, the Group's premium revenue is not recognised on a straight line basis. This is due to a number of factors.

Gross written premium is recognised on the inception of insurance contracts. For many classes of business this has historically been weighted towards the first half of the year.

Certain of the Group's underwriting units (primarily property reinsurance and energy) are exposed to major risk events, such as US windstorms. The US hurricane season runs from June to November, which means that the Group may experience large losses in the second half of the year. Conversely, in years without a major event, the loss ratio is likely to be lower in the second half.

Premium revenue is earned separately for each insurance contract in line with the risk exposure profile. This means that for some catastrophe exposed contracts, the majority of income is recognised in the second half of the year.

Movements in foreign exchange rates may affect seasonality. This effect may be accentuated as the Group's catastrophe exposed units primarily transact business in US dollars.

This seasonality can be assessed by reviewing the following performance measures:

| | Gross written premium | | | Claims ratio | | | Net premium revenue | | |
|---|---|---|---|---|---|---|---|---|---|
| | H1 £m | H2 £m | Total £m | H1 % | H2 % | Total % | H1 £m | H2 £m | Total £m |
| 2006 | 146.6 | 134.6 | 281.2 | 53.0 | 39.0 | 46.3 | 114.8 | 106.0 | 220.8 |
| 2007 | 173.3 | 159.7 | 333.0 | 47.7 | 58.3 | 53.7 | 96.8 | 124.2 | 221.0 |
| 2008 | 186.0 | 163.0 | 349.0 | 51.9 | 76.6 | 64.6 | 125.9 | 132.5 | 258.4 |
| 2009 | 220.3 | 163.8 | 384.1 | 69.0 | 59.7 | 64.1 | 145.4 | 158.2 | 303.6 |
| 2010 | 333.4 | 254.3 | 587.7 | 63.3 | 57.0 | 59.8 | 189.9 | 240.7 | 430.6 |

## 4) (Losses)/earnings, net assets and net tangible assets per share

### Basic (losses)/earnings per share

The calculation of losses per share of 38.9p (June 2010: earnings of 14.9p; December 2010: earnings of 34.1p) is based on a loss attributable to equity shareholders of the parent company of £24.9 million (June 2010: profit of £10.8 million; December 2010: profit of £24.6 million) and on 63.9 million shares (June 2010: 72.4 million shares; December 2010: 72.1 million shares), being the weighted average number of shares in issue (excluding shares held by the Employee Benefit Trust which are earmarked for the Group's Long Term Incentive Plan ("LTIP") and deferred bonuses payable in shares) during the period ended 30 June 2011.

The comparative figures do not reflect the 8-for-9 share consolidation as the share consolidation was conducted in parallel with a return of capital at the end of 2010.

### Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive shares. Novae's potentially dilutive shares relate to LTIP awards/deferred bonuses payable in shares. The number of potential shares is calculated with reference to the current date as though it were the vesting date, excluding shares held by the Employee Benefit Trust earmarked for these awards.

| | **Six months ended 30 June 2011 £m** | Six months ended 30 June 2010 £m | Year ended 31 December 2010 £m |
|---|---|---|---|
| (Loss)/profit used to determine diluted (losses)/earnings per share | **(24.9)** | 10.8 | 24.6 |
| Weighted average number of shares in issue (millions) excluding treasury shares | **63.9** | 72.4 | 72.1 |
| Adjustments for LTIPs and deferred bonuses payable in shares (millions) | **0.8** | 0.6 | 0.6 |
| Weighted average number of shares for diluted earnings per share | **64.7** | 73.0 | 72.7 |
| Diluted (losses)/earnings per share (pence per share) | **(38.9)p**[1] | 14.8p | 33.8p |

[1]The dilutive impact on shares is excluded when it decreases the loss per share in accordance with IAS 33 Earnings per share.

The comparative figures do not reflect the 8-for-9 share consolidation as the share consolidation was conducted in parallel with a return of capital at the end of 2010.

**Net assets and net tangible assets per share**

Net assets and net tangible assets per share are calculated on the number of shares in issue (excluding shares held by the Employee Benefit Trust which are earmarked for the Group's LTIPs and deferred bonuses payable in shares) at 30 June 2011.

| | **30 June 2011 £m** | 30 June 2010 £m | 31 December 2010 £m |
|---|---|---|---|
| Net assets | **261.7** | 316.2 | 293.6 |
| Intangible assets | **(7.7)** | (9.0) | (8.4) |
| Net tangible assets | **254.0** | 307.2 | 285.2 |
| Number of shares in issue (millions) excluding treasury shares | **64.3** | 64.1 | 63.4 |
| Net asset value per share | **407.1p** | 493.1p | 462.9p |
| Net tangible asset value per share | **395.1p** | 479.0p | 449.7p |

The comparative figures reflect the 8-for-9 share consolidation.

## 5) Reinsurance contracts

| | **30 June 2011 £m** | 30 June 2010 £m | 31 December 2010 £m |
|---|---|---|---|
| Reinsurance contracts | **381.8** | 423.5 | 369.7 |
| Less: reinsurers' share of provisions for unearned premium | **(48.2)** | (54.8) | (30.8) |
| Reinsurers' share of claims outstanding | **333.6** | 368.7 | 338.9 |
| Less: reinsurers' share of provision for losses incurred but not reported ("IBNR") | **(124.7)** | (125.4) | (115.9) |
| Balance | **208.9** | 243.3 | 223.0 |
| Being: | | | |
| Recoveries on claims notified not yet due | **211.9** | 246.7 | 226.2 |
| Provision for bad debt | **(3.0)** | (3.4) | (3.2) |
| Net recoveries on claims notified not yet due | **208.9** | 243.3 | 223.0 |

## 6) Financial assets

| | **30 June 2011 £m** | 30 June 2010 £m | 31 December 2010 £m |
|---|---|---|---|
| Fixed interest securities | **748.5** | 733.2 | 728.8 |
| Financial assets comprise: | | | |
| Syndicate | **465.7** | 329.9 | 441.6 |
| Corporate | **282.8** | 403.3 | 287.2 |
| | **748.5** | 733.2 | 728.8 |

All financial assets are listed and held at fair value through profit or loss.

## 7) Insurance contract liabilities

| | 30 June 2011 | | |
|---|---|---|---|
| | **Gross £m** | **Reinsurance £m** | **Net £m** |
| Unearned premiums | **343.5** | **48.2** | **295.3** |
| IBNR | **564.1** | **124.7** | **439.4** |
| Notified claims | **637.3** | **208.9** | **428.4** |
| Total insurance liabilities | **1,544.9** | **381.8** | **1,163.1** |

| | 30 June 2010 | | |
|---|---|---|---|
| | Gross £m | Reinsurance £m | Net £m |
| Unearned premiums | 273.4 | 54.8 | 218.6 |
| IBNR | 451.1 | 125.4 | 325.7 |
| Notified claims | 648.0 | 243.3 | 404.7 |
| Total insurance liabilities | 1,372.5 | 423.5 | 949.0 |

| | 31 December 2010 | | |
|---|---|---|---|
| | Gross £m | Reinsurance £m | Net £m |
| Unearned premiums | 243.2 | 30.8 | 212.4 |
| IBNR | 488.6 | 115.9 | 372.7 |
| Notified claims | 610.7 | 223.0 | 387.7 |
| Total insurance liabilities | 1,342.5 | 369.7 | 972.8 |

## Claims development tables

| *Underwriting year* | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Gross claims:** | | | | | | | | | | |
| Estimate of ultimate gross claims: | | | | | | | | | | |
| – at end of underwriting year | 213.8 | 266.6 | 298.1 | 181.5 | 251.4 | 319.6 | 249.9 | 375.9 | | 2,156.8 |
| – one year later | 217.2 | 253.8 | 280.0 | 169.5 | 247.3 | 366.8 | 254.9 | | | 1,789.5 |
| – two years later | 197.0 | 256.0 | 257.5 | 170.7 | 231.9 | 385.2 | | | | 1,498.3 |
| – three years later | 180.7 | 254.5 | 249.2 | 155.9 | 238.5 | | | | | 1,078.8 |
| – four years later | 176.1 | 224.4 | 252.5 | 168.0 | | | | | | 821.0 |
| – five years later | 164.9 | 212.4 | 248.2 | | | | | | | 625.5 |
| – six years later | 158.2 | 210.2 | | | | | | | | 368.4 |
| – seven years later | 142.4 | | | | | | | | | 142.4 |
| – position at 30 June 2011 | 144.0 | 206.4 | 251.4 | 166.1 | 250.0 | 393.2 | 236.5 | 396.4 | 417.6 | 2,461.6 |
| **Gross claims paid** | | | | | | | | | | |
| – at end of underwriting year | 4.6 | 12.3 | 26.8 | 3.7 | 9.2 | 19.3 | 7.4 | 11.6 | | 94.9 |
| – one year later | 37.6 | 65.5 | 103.7 | 20.8 | 53.3 | 90.3 | 66.0 | | | 437.2 |
| – two years later | 66.0 | 123.6 | 152.0 | 48.4 | 93.9 | 138.6 | | | | 622.5 |
| – three years later | 85.8 | 145.5 | 189.2 | 77.4 | 129.3 | | | | | 627.2 |
| – four years later | 105.3 | 171.0 | 204.1 | 92.0 | | | | | | 572.4 |
| – five years later | 116.3 | 176.5 | 213.1 | | | | | | | 505.9 |
| – six years later | 121.1 | 184.6 | | | | | | | | 305.7 |
| – seven years later | 125.6 | | | | | | | | | 125.6 |
| – position at 30 June 2011 | 127.6 | 187.5 | 215.8 | 99.9 | 138.8 | 153.3 | 91.0 | 58.0 | 2.7 | 1,074.6 |
| **Gross ultimate claims reserve** | 16.4 | 18.9 | 35.6 | 66.2 | 111.2 | 239.9 | 145.5 | 338.4 | 414.9 | 1,387.0 |
| **Liability in respect of 2002 and prior underwriting years** | | | | | | | | | | 233.2 |
| **Gross unearned claims reserve** | | | | | | | | | | (384.8) |
| **Third party participation on syndicates** | | | | | | | | | | (34.0) |
| **Gross claims reserve** | | | | | | | | | | **1,201.4** |

| *Underwriting year* | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Net claims:** | | | | | | | | | | |
| Estimate of ultimate net claims | | | | | | | | | | |
| – at end of underwriting year | 149.7 | 204.4 | 202.1 | 143.3 | 192.4 | 217.8 | 190.2 | 326.3 | | 1,626.2 |
| – one year later | 151.5 | 194.5 | 185.5 | 141.8 | 192.7 | 246.3 | 182.1 | | | 1,294.4 |
| – two years later | 134.7 | 182.3 | 167.9 | 135.1 | 180.3 | 242.6 | | | | 1,042.9 |
| – three years later | 128.9 | 179.7 | 169.0 | 127.7 | 176.2 | | | | | 781.5 |
| – four years later | 126.7 | 167.5 | 168.8 | 130.5 | | | | | | 593.5 |
| – five years later | 120.8 | 164.4 | 165.4 | | | | | | | 450.6 |
| – six years later | 117.7 | 164.2 | | | | | | | | 281.9 |
| – seven years later | 109.4 | | | | | | | | | 109.4 |
| – position at 30 June 2011 | 110.3 | 161.6 | 163.8 | 129.0 | 186.6 | 246.5 | 172.1 | 357.7 | 367.8 | 1,895.4 |
| **Net claims paid** | | | | | | | | | | |
| – at end of underwriting year | 4.6 | 12.2 | 10.9 | 3.7 | 6.2 | 18.0 | 6.1 | 11.5 | | 73.2 |
| – one year later | 23.8 | 52.4 | 48.4 | 20.4 | 48.5 | 73.3 | 46.4 | | | 313.2 |
| – two years later | 44.6 | 84.8 | 88.4 | 44.8 | 84.9 | 111.7 | | | | 459.2 |
| – three years later | 60.6 | 104.7 | 113.1 | 68.0 | 103.4 | | | | | 449.8 |
| – four years later | 75.4 | 122.0 | 128.1 | 79.0 | | | | | | 404.5 |
| – five years later | 85.8 | 135.0 | 136.6 | | | | | | | 357.4 |
| – six years later | 91.6 | 142.6 | | | | | | | | 234.2 |
| – seven years later | 95.8 | | | | | | | | | 95.8 |
| – position at 30 June 2011 | 97.7 | 145.7 | 139.2 | 85.5 | 111.8 | 121.0 | 68.7 | 57.2 | 2.7 | 829.5 |
| **Net ultimate claims reserve** | 12.6 | 15.9 | 24.6 | 43.5 | 74.8 | 125.5 | 103.4 | 300.5 | 365.1 | 1,065.9 |
| **Liability in respect of 2002 and prior underwriting years** | | | | | | | | | | 164.3 |
| **Net unearned claims reserve** | | | | | | | | | | (341.1) |
| **Third-party participation on syndicates** | | | | | | | | | | (21.3) |
| **Net claims reserve** | | | | | | | | | | **867.8** |

The information shown above is prepared on an underwriting year basis and it therefore relates the expected cost of claims to the level of ultimate premiums. Changes in the projected level of ultimate premiums will contribute to the movement in claims costs shown above. Across all prior year’s net of reinsurance, that component of claims development that relates to settlement of claims at levels different from reserves carried or reassessment of reserves required in respect of claims that remain unsettled amounted in aggregate to a credit of £11.8 million at the Group’s ownership level.

## 8) Financial liabilities

***(a) Loan notes***

During 2004 the Group issued US $36.0 million of 30 year floating rate notes and floating rate subordinated notes in three tranches. The notes constitute direct and unsecured obligations of the issuer. The notes are listed on the Irish Stock Exchange. Swaps are used to match exposure to fluctuations in interest rates. The swaps, which mature on the same dates as the interest is due for payment on the loans, have the effect of fixing the interest rate at 6.18% until 15 August 2024. The losses on the hedging instruments, being the interest rate swaps, were £0.3 million in the six months to 30 June 2011 (in six months to 30 June 2010 £1.6 million loss, in the year to 31 December 2010 £1.3 million loss), which have been recognised within other comprehensive income.

**(b) *Revolving credit facility***

Novae Group has available a revolving credit facility from Lloyds TSB of £15.0 million, none of which was drawn at 30 June 2011 (June 2010 and December 2010: none).

**(c) *Subordinated notes***

1,000,000 fixed/floating rate subordinated notes at a nominal value of £100.0 million were issued on 27 April 2007 and are listed on the London Stock Exchange. The notes are callable at par on 27 April 2012 and bear an initial interest rate of 8.375% per annum. Following the call date the interest rate resets at a step-up of 313 basis points above the original three month sterling LIBOR equivalent spread until the notes fall due on 27 April 2017. A swap has been entered into in order to match exposure to fluctuations in interest rates from 28 April 2012; it matures on the same date as the interest is due for payment and has the effect of fixing the interest rate at 6.99%. The loss on the hedging instrument, being the interest rate swap, was £1.8 million in the six month period to 30 June 2011 (in six months to 30 June 2010 £1.0 million loss, in the year to 31 December 2010 £1.2 million loss), which has been recognised within other comprehensive income.

At 30 June 2011 £30.6 million nominal value (June 2010 and December 2010: £30.0 million) had been bought at market value of £19.6 million plus accrued interest and cancelled (June 2010 and December 2010: £19.0 million).

## 9) Capital and reserves

### Share capital

| | Ordinary shares of £1.125 Number | £ |
|---|---|---|
| **Issued and fully paid** | | |
| 31 December 2010 and 30 June 2011 | **65,085,640** | **73,221,346** |

In accordance with the provisions of the Companies Act 2006 the requirement for authorised capital has been removed.

## 10) Dividends per share

| | **Six months ended 30 June 2011 £m** | Six months ended 30 June 2010 £m | Year ended 31 December 2010 £m |
|---|---|---|---|
| Second interim dividend for the year ended 31 December 2009 of 9.0p per share | **-** | 5.8 | 5.8 |
| Interim dividend for the year ended 31 December 2010 of 3.7p per share | **-** | - | 2.4 |
| Final dividend for the year ended 31 December 2010 of 12.0p per share | **7.7** | - | - |
| | **7.7** | 5.8 | 8.2 |

These figures reflect the 8-for-9 share consolidation

A final dividend of 12.0p per ordinary share was paid on 11 May 2011 to shareholders on the register on 8 April 2011. An interim dividend of 5.0p per share (H1 2010: 3.7p per share) is payable on 5 October 2011 to shareholders on the register on 9 September 2011. These financial statements do not provide for the interim dividend as a liability.

## INDEPENDENT REVIEW REPORT TO NOVAE GROUP PLC

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises a condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 Company for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Rees Aronson
For and behalf of KPMG Audit Plc
*Chartered Accountants*

15 Canada Square
London
E14 5GL

4 August 2011