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Novae Group plc » *Interim Report 2011*



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.

Financial highlights

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m (as restated)	Year ended 31 Dec 2010 £m
Gross written premium	387.9	333.4	587.7
Net written premium	333.7	261.0	493.9
Net premium revenue	249.9	189.9	430.6
Underwriting contribution	(40.3)	(1.4)	13.9
Investment contribution	11.4	16.4	25.4
Financing charge	(3.8)	(4.6)	(8.7)
Other income less monetary foreign exchange gain/(loss)	2.6	3.4	5.6
Underlying (loss)/profit before tax and currency gain/(loss) on non-monetary items	(30.1)	13.8	36.2
Net assets	261.7	316.2	293.6
Net tangible assets	254.0	307.2	285.2
Per share amounts (in pence)			
Basic (losses)/earnings per share	(38.9)p	14.9p	34.1p
Dividend per share ¹	5.0p	3.7p	15.7p
Net asset value per share ¹	407.1p	493.1p	462.9p
Net tangible asset value per share ¹	395.1p	479.0p	449.7p
Group operating ratios			
Underlying pre-tax (loss)/return on equity	(10.8)%	4.4%	12.6%
Claims ratio	80%	63%	60%
Expense ratio	31%	34%	31%
Combined ratio	111%	97%	91%

¹ adjusted for the return of capital and share consolidation in December 2010

Claims ratio is net claims incurred divided by net premium revenue for the period/year. Expense ratio is underwriting expense incurred divided by net premium revenue. The expense ratio does not include expenses that are not allocated to underwriting segments. Combined ratio is the total of the claims and expense ratios.

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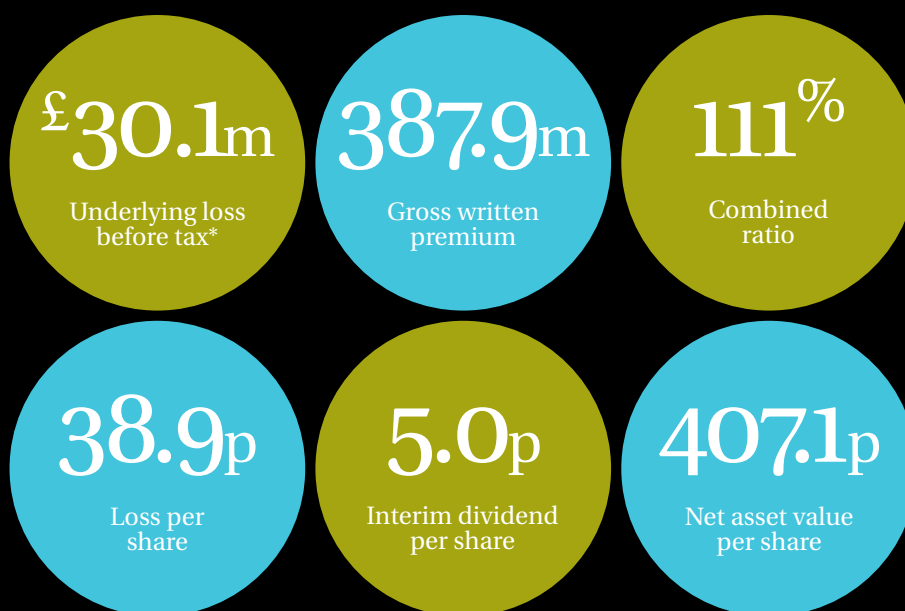
Highlights

- Gross written premium up 16% to £387.9 million (H1 2010: £333.4 million)
- Underlying loss before tax £30.1 million (H1 2010: profit £13.8 million) (note 1)
- Industry catastrophe losses in first half estimated at over US \$60 billion, following period of significant industry losses in 2010
- Estimated financial effect from catastrophes on Novae of £50 million, equivalent to 20 points on the net claims ratio
- Net claims ratio 80% (H1 2010: 63%). Attritional net claims ratio 60%
- Combined ratio 111% (H1 2010: 97%). Underlying combined ratio 91%
- Underwriting loss of £40.3 million (H1 2010: loss of £1.4 million) (note 1)
- Investment contribution of £11.4 million (H1 2010: £16.4 million)
- Loss per share 38.9p (H1 2010: earnings per share 14.9p) (note 2)
- Interim dividend per share 5.0p (H1 2010: 3.7p) (note 2)
- Net asset value per share 407.1p (December 2010: 462.9p) (note 2)
- Net tangible asset value per share 395.1p (December 2010: 449.7p) (note 2)

Notes

- 1 before exceptional items and non-monetary foreign exchange gains
- 2 adjusted for the return of capital and share consolidation in December 2010

Key performance indicators



* before exceptional items and non-monetary foreign exchange gains

Disclaimer | This interim report contains certain forward-looking statements, which are made by the directors in good faith based on the information available to them at the time of their approval of this document. Statements contained in this interim report should be treated with caution due to the inherent uncertainties, including economic, regulatory and business risk factors, underlying any such forward-looking statements. The interim report has been prepared by Novae to provide information to its shareholders and should not be used by any other party or for any other purpose.

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 restated 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.

Interim results statement continued

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	Jan 2011	US \$3-5bn	US \$9.9m
Christchurch earthquake	Feb 2011	US \$12bn	US \$29.8m
Japanese earthquake and tsunami	Mar 2011	US \$20-30bn	US \$28.0m
US tornadoes	Apr/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 programme. 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 Group's business mix.

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

	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).

Interim results statement continued

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.

Interim results statement continued

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	4	286.8	241.9	528.7
Less premium ceded to reinsurers	4	(36.9)	(52.0)	(98.1)
Net premium revenue		249.9	189.9	430.6
Investment contribution	5	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	6	(33.0)	(27.0)	(60.1)
Net foreign exchange gains	7	2.3	4.0	4.0
Operating (loss)/profit		(25.9)	19.5	43.8
Financing charge	8	(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				
Notional currency gain/(loss) on non-monetary items	7	1.0	1.3	(0.2)
Exceptional costs	6	(0.6)	(0.2)	(0.9)
Income taxes	9	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	10	(38.9)p	14.9p	34.1p
Diluted (losses)/earnings per share	10	(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	16	(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	11	41.5	42.5	36.3
Reinsurance contracts	12	381.8	423.5	369.7
Insurance and other receivables		355.0	305.5	221.1
Financial assets	13	748.5	733.2	728.8
Cash and cash equivalents	14	381.6	334.7	415.2
Total assets		1,989.5	1,900.6	1,831.4
Liabilities				
Insurance contracts	15	(1,544.9)	(1,372.5)	(1,342.5)
Financial liabilities, due after one year				
Loan notes	16	(22.4)	(24.0)	(22.9)
Subordinated notes	16	(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	17	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	10	407.1p	493.1p	462.9p
Net tangible asset value per share	10	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 (note 17)	–	–	32.1	(32.1)	–
– Dividends paid (note 18)	–	–	–	(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 18)	–	–	–	(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 18)	–	–	–	(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 £m	Six months ended 30 June 2010 £m	Year ended 31 December 2010 £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 15).

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 16.

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 £m	Reinsurance £m	Total reportable segments £m	Unallocated by segment £m	Total £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 contribution	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)

Notes to the interim financial information continued

2. Segmental information continued

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

	Insurance £m	Reinsurance £m	Total reportable segments £m	Unallocated by segment £m	Total £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 contribution	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 £m	Reinsurance £m	Total reportable segments £m	Unallocated by segment £m	Total £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 contribution	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

Notes to the interim financial information continued

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. Premium revenue

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Gross written premium	387.9	333.4	587.7
Change in the gross provision for unearned premiums	(101.1)	(91.5)	(59.0)
Gross premium revenue	286.8	241.9	528.7
Outward reinsurance premiums	(54.2)	(72.4)	(93.8)
Change in reinsurers' share of provision for unearned premiums	17.3	20.4	(4.3)
Premium ceded to reinsurers	(36.9)	(52.0)	(98.1)
Net premium revenue	249.9	189.9	430.6

5. Investment contribution

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Interest income on financial assets designated at fair value through the income statement	17.0	15.0	19.7
Net fair value (losses)/gains	(5.2)	1.8	6.7
Investment management expenses	(0.4)	(0.4)	(1.0)
	11.4	16.4	25.4

6. Operating expenses

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Underwriting expenses	19.9	19.4	36.3
Central expenses	12.5	7.4	22.9
Exceptional costs	0.6	0.2	0.9
	33.0	27.0	60.1

Exceptional costs includes restructuring costs and fees in relation to potential corporate transactions

7. Foreign exchange

The net foreign exchange gains and losses for the period comprise the following amounts:

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Foreign exchange gains (excluding non-monetary items)	1.3	2.7	4.2
Foreign exchange gains/(losses) on non-monetary items	1.0	1.3	(0.2)
Net foreign exchange gains	2.3	4.0	4.0

The Board believes that the pattern of profits from year to year can be confusing if it is considered without separation of the notional foreign exchange gain/(loss) on non-monetary items in periods of significant exchange rate volatility. This is because IFRS requires different treatments of:

- 1) The unearned premium reserve, reinsurers' share of unearned premium reserve and deferred acquisition costs, which are treated as non-monetary items and carried at historical exchange rates; and
- 2) Investment assets and claims reserves, which are treated as monetary items and translated at closing exchange rates

Therefore the underlying profit before the notional foreign exchange gain/(loss) on non-monetary items is stated on the face of the statement of comprehensive income.

Principal exchange rates applied are as follows:

	Six months ended 30 June 2011		Six months ended 30 June 2010		Year ended 31 December 2010	
	Period average	Period end	Period average	Period end	Year average	Year end
US dollar	1.62	1.61	1.53	1.50	1.55	1.57
Euro	1.15	1.11	1.15	1.22	1.17	1.17
Canadian dollar	1.58	1.55	1.58	1.59	1.59	1.56

8. Financing charge

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Cost of 2017 subordinated notes	2.6	3.1	5.6
Cost of 2034 loan notes	0.7	0.8	1.5
Other financing	0.5	0.7	1.6
	3.8	4.6	8.7

Notes to the interim financial information continued

9. Income taxes

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Current tax expense:			
Current period	0.2	–	0.6
Adjustments for prior years	–	–	(0.5)
Overseas tax expense:			
Current period	0.2	1.3	1.1
Adjustments for prior years	–	–	0.3
Deferred tax (see note 11):			
Current year	(9.1)	2.8	9.1
Impact of rate change	1.4	–	1.3
Prior year	2.5	–	(1.4)
Total income tax (credit)/expense	(4.8)	4.1	10.5
Reconciliation of effective tax rate:			
(Loss)/profit before income taxes	(29.7)	14.9	35.1
Income tax at the standard UK corporation tax rate (26.5%) (June 2010: 28.0%; December 2010: 28.0%)	(7.9)	4.2	9.8
Effect of permanent differences	(0.8)	–	1.0
Prior period adjustments	2.5	2.8	(1.6)
Effect of tax losses recognised	–	(2.9)	–
Impact of rate change	1.4	–	1.3
	(4.8)	4.1	10.5

10. (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.

11. Deferred tax

	30 June 2011 £m	30 June 2010 £m	31 December 2010 £m
Recognised deferred tax assets			
Temporary differences	15.8	2.6	17.7
Underwriting profits earned and taxed in future periods	(12.0)	(6.4)	(19.0)
Unutilised tax losses	37.7	46.3	37.6
	41.5	42.5	36.3

On 23 March 2011 the Government announced its intention to reduce the UK corporation tax rate from 28% to 23% over a period of four years from 1 April 2011. The first of these rate reductions to 26% was enacted on 29 March 2011 and became effective on 1 April 2011. Accordingly, this rate reduction has been reflected in the deferred tax asset which forms part of the balance sheet.

The second of the rate reductions, to 25%, was enacted on 19 July 2011 and will become effective as of 1 April 2012. Under IAS 12, rate changes can only be reflected in deferred tax assets or liabilities if they are substantially enacted or enacted by the balance sheet date. Therefore, this rate reduction is expected to be reflected in the deferred tax balance at 31 December 2011. Based on the deferred tax asset at 30 June 2011, we would expect the impact of this rate reduction to reduce the deferred tax asset by £1.6 million.

Notes to the interim financial information continued

11. Deferred tax continued

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will reduce the company's future current tax charge and reduce the company's deferred tax assets accordingly.

The Group also has accumulated gross capital losses of £45.8 million. No asset has been recognised in respect of these losses.

12. 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

13. 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.

14. Cash and cash equivalents

	30 June 2011 £m	30 June 2010 £m	31 December 2010 £m
Cash	246.6	251.6	322.4
Overseas deposits	135.0	83.1	92.8
	381.6	334.7	415.2

15. Insurance contracts

	Gross £m	30 June 2011 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		Net
	Gross £m	Reinsurance £m	£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		Net
	Gross £m	Reinsurance £m	£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 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	Total £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

Notes to the interim financial information continued

15. Insurance contract liabilities continued

Underwriting year	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	Total £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.

16. 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).

17. 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.

Return of capital

On 23 December 2010 a share consolidation was carried out to convert nine existing ordinary shares with a nominal value of 100.0 pence each to eight new ordinary shares with a nominal value of 112½ pence each. The share consolidation converted the existing 73,221,346 issued and fully paid ordinary shares into 65,085,640 new issued and fully paid ordinary shares and one default share of £1. The number of shares used in the calculation of the operating ratios (note 10) and dividends per share (note 18) reflects this share consolidation.

On 23 December 2010 the creation of up to 73,221,346 B and C shares was approved by shareholders. These shares were created for the purpose of returning 45.0 pence per ordinary share of 100.0 pence to shareholders. Shareholders were entitled to elect as to how they received the return of capital by electing for B shares, C shares or a mixture of the two.

Notes to the interim financial information continued

17. Capital and reserves continued

The B shares are non-cumulative redeemable preference shares with a nominal value of 45.0p each and do not carry any right to vote or receive dividends. Shareholders elected to receive 54,693,986 B shares to be redeemed on 17 January 2011 and 1,836,591 on 16 January 2012.

The C shares are non-cumulative irredeemable preference shares with a nominal value of 1.0p each. Shareholders elected to receive 16,690,769 C shares (or received them by default) and received a special dividend payment of 45.0p per C share on 21 January 2011. Following payment of the special dividend, the C shares were converted into deferred shares, repurchased and cancelled.

Other reserves

A merger reserve of £69.6 million was created in May 2006 following the scheme of arrangement whereby Novae Group plc was interposed as the new holding company of the Novae Group, and relates to the valuation of the new shares issued in excess of their nominal value.

A capital redemption reserve of £32.1 million was created in January 2011 following the return of capital elections described above.

Share premium account

The share premium of £67.1 million was created in May 2006 by a one-for-one rights issue. In December 2010 the share premium account was used to create the new B and C shares (see above), and in March 2011 the balance of the share premium account was cancelled, with the balance transferring to distributable reserves.

18. 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 on behalf of KPMG Audit Plc

Chartered Accountants
15 Canada Square
London
E14 5GL

4 August 2011

Summary of results

	Six months ended 30 June 2011 £m	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Financial highlights					
Gross written premium	387.9	587.7	384.1	349.0	333.0
Net written premium	333.7	493.9	298.0	258.2	246.3
Net premium revenue	249.9	430.6	303.6	258.4	221.0
Underwriting contribution	(40.3)	13.9	(14.8)	(24.3)	(6.0)
Investment contribution	11.4	25.4	31.0	50.0	46.8
Other income less financing costs ¹	(1.2)	(3.1)	1.5	1.6	(5.7)
Underlying (loss)/profit before tax and currency gain/(loss) on non-monetary items	(30.1)	36.2	17.7	27.3	35.1
Net assets	261.7	293.6	313.7	300.5	269.9
Net tangible assets	254.0	285.2	304.0	294.0	263.5
Per share amounts (in pence)					
Basic (losses)/earnings per share	(38.9)p	34.1p	36.8p	51.7p	45.3p
Core dividends per share ²	5.0p	15.7p	12.3p	11.3p	8.4p
Net asset value per share ²	407.1p	462.9p	490.7p	472.5p	422.7p
Net tangible asset value per share ²	395.1p	449.7p	475.5p	462.2p	412.5p
Group operating ratios					
Underlying pre-tax return on equity	(10)%	13%	6%	10%	14%
Claims ratio	80%	60%	64%	65%	54%
Expense ratio	31%	31%	35%	36%	38%
Combined ratio	111%	91%	99%	101%	92%

¹ excludes non-monetary foreign exchange gains/losses

² adjusted for the return of capital and share consolidation in December 2010

Claims ratio is net claims incurred divided by net premium revenue for the period/year. Expense ratio is underwriting expense incurred divided by net premium revenue. The expense ratio does not include expenses that are not allocated to underwriting segments. Combined ratio is the total of the claims and expense ratios.

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M K Fosh
J R Adams
O R P Corbett
L P Adams
Sir Bryan Carsberg
A E G Hambro
R C D Henderson
D J Pye

Financial calendar

Interim management statement:
November 2011

Announcement of preliminary results to 31 December 2011:
March 2012

Interim management statement:
May 2012

Annual General Meeting:
May 2012

How to receive your annual report electronically

Computershare and Novae Group plc support Tree for All, the Woodland Trust's woodland creation campaign. eTree is an incentive programme designed to encourage shareholders to receive electronic communications to save paper and to reduce impact on the environment. For every shareholder who signs up to electronic communications, Novae Group plc, will donate £1 to the Woodland Trust Tree for All campaign.

If you would like to participate, simply visit the website below with your shareholder number and email address to hand. In future, this will mean that you will receive the Report and Accounts, and certain other shareholder communications, electronically rather than in hard copy.

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