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SYNDICATE 2007

NOVAE SYNDICATES LIMITED ● REPORT & ACCOUNTS 2015

CONTENTS

DIRECTORS AND ADMINISTRATION

Directors of Novae Syndicates Limited – from 1 January 2013 to 15 March 2016

M P Hudson*	appointed 5 November 2015, appointed Chairman 1 December 2015
Sir Bryan Carsberg*	resigned Chairman 1 December 2015, resigned 31 December 2015
J L J Butcher	resigned 27 February 2014, appointed to Board as Chief Executive Officer 17 March 2015
J R Adams	resigned as Chief Executive Officer and from the Board 17 March 2015
L P Adams*	resigned 31 December 2015
R D C Henderson*	resigned 31 December 2015
D J Pye*	
M C Phibbs*	resigned 31 December 2015
D F M Cote*	appointed 5 November 2015
I Burford	
R D Forster	
M A Hudson	
R Patel	appointed 17 February 2015
A M Nichols	resigned 30 April 2014
J A Boyns	resigned 7 February 2014
S J Heming	resigned 7 February 2014
I M Hilder	resigned 7 February 2014
C L Murray	resigned 31 December 2013

** denotes non-executive director*

Active Underwriter
I Burford

Bankers
Barclays Bank plc
5 North Colonnade, Canary Wharf
London E14 4BB

Citibank NA
CGC Centre, Canary Wharf
London E14 5LB

Lloyds Banking Group
25 Gresham Street
London EC2V 7HN

Royal Bank of Canada
Royal Trust Tower
77 King Street West
Toronto ON. M5W 1P9
Canada

Company Secretary
S J Heming

Managing Agent's registered office
Novae Syndicates Limited
21 Lombard Street
London EC3V 9AH

Managing Agent's registered number
2082070

Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Investment Managers

February 2015 to date:
BlackRock
12 Throgmorton Avenue
London EC2N 2DL

Prior to February 2015:
Conning Asset Management Limited
55 King William Street
London EC4R 9AD

Insight Investment Management Limited
160 Queen Victoria Street
London EC4V 4LA

Morgan Stanley Investment Management
One Tower Bridge
100 Front Street Suite 1100
West Conshohocken, PA 19428
USA

Royal London Cash Management Limited
55 Gracechurch Street
London EC3V 0UF

Schroder Investments Limited
31 Gresham Street
London EC2V 7QA

Schroder Investment Management (Luxembourg) S.A.
5, rue Höhenhof
L-1736 Senningerberg
Luxembourg

CHAIRMAN'S STATEMENT

In my first statement as Chairman of Novae Syndicates Limited since joining the Board in November 2015, I am delighted to report another strong annual result for Syndicate 2007 for the 2015 calendar year and a pleasing closed year result for the 2013 year of account.

Syndicate 2007 ("the syndicate"), managed by Novae Syndicates Limited ("NSL"), transacts a wide variety of insurance and reinsurance business through its underwriting activity as a syndicate at Lloyd's of London. Underwriting a diversified portfolio reduces the underwriting risk faced by the syndicate. The syndicate also purchases outwards reinsurance to manage the overall risk.

The stamp capacity for 2016 is £700 million. NSL received Lloyd's approval to increase the capacity on the 2015 year of account at the mid-year from £575 million to £650 million. Novae Group plc ("Novae") will provide the whole of the capacity on Syndicate 2007 for the 2016 underwriting year through its own corporate member, Novae Corporate Underwriting Limited ("NCUL").

For the 2013 and 2014 years of account NCUL participated on 96.85% of the syndicate, with the balance being provided by two direct corporate member participants on a limited tenure basis. These were not renewed for the 2015 or 2016 years of account.

Profile of Syndicate 2007

The mix of business written for the 2013, 2014 and 2015 underwriting years at 31 December 2015 is summarised below (in combined sterling £m). They are shown gross of acquisition costs.

Property	2015	2014	2013
Property insurance	229.9	159.9	121.6
Property reinsurance	69.7	67.9	71.5
Agriculture & livestock	40.9	49.7	65.3
Property total	340.5	277.5	258.4

Casualty	2015	2014	2013
Specialty liability	61.1	82.0	79.5
General liability & Motor	57.9	67.6	64.2
Casualty reinsurance	28.6	19.6	14.8
Casualty total	147.6	169.2	158.5

MAP	2015	2014	2013
Marine & energy	132.5	140.1	114.3
Credit & political	72.6	67.0	57.4
Aviation RI	22.6	21.5	21.0
MAP total	227.7	228.6	192.7

Total gross premiums	715.8	675.3	609.6

CHAIRMAN'S STATEMENT (continued)

The above figures reflect the premiums recorded in these financial statements at the current reporting date and are therefore not projected to ultimate. Significant movements in the second year of development can arise on underwriting years due to further recognition of income from binder arrangements.

The syndicate's business during the relevant underwriting years up to the end of 2015 is managed between Property, Casualty and Marine, Aviation and Political Risk (MAP) divisions. The strategy to broaden the mix of business written by the syndicate over recent years included an expansion of reinsurance business during the period 2010 to 2012. In 2013 the Group decided to reduce or withdraw from certain reinsurance lines and refocus in others. The overall book has been diversified and rebalanced and continues to target profitable growth through the recent renewal season.

Through these changes, the syndicate now operates at the highest level through three divisions: the Property division, which writes both direct and reinsurance and is headed by Stuart Heath; the Casualty division which is headed by Robert Patten; and the MAP division which is headed by John Owen. These individuals, in conjunction with the active underwriter, are responsible for managing the overall underwriting and this structure enables them to bring their experience to bear most effectively.

Growth within the syndicate is concentrated in lines of business that offer the best opportunity for profit, such as UK, European and US Property Facilities, International Property Open Market and Binder lines, Cyber and Marine and Energy facility business. This process of controlled growth continues into 2016.

The purchase of outward reinsurance is an important part of controlling underwriting risk. For 2014, the retention levels on casualty business were increased. There has been a restructuring of the Property reinsurance arrangements, resulting in more cover being purchased through a single programme covering property classes. The overall consequence is likely to be a higher outwards reinsurance cost relative to gross premium income in these younger years.

Another important risk for the syndicate is reserving risk. Historically Novae Group plc, the parent company of NSL, held a margin over and above actuarially determined best estimate reserves. In line with practice elsewhere, in 2013 the Board of NSL felt it appropriate to hold an element of this margin at syndicate level.

Underwriting risk and reserving risk dominate the risk profile of the syndicate. The managing agency seeks to restrict the extent of risk in other important respects. A short duration profile to the investment portfolio looks to contain market risk and the syndicate seeks to maintain a cautious approach to credit risk in both the investment portfolio and arrangements with reinsurance counterparties. A fuller assessment of the application of risk management to Syndicate 2007 is contained in the separate section that follows this statement.

Total reserves at 31 December 2015:

		Gross £m	Net £m
Property	2013 & prior years	47.4	45.6
	2014 year	40.0	39.3
	2015 year	69.5	66.6
Casualty	2013 & prior years	576.4	368.9
	2014 year	93.9	84.8
	2015 year	41.0	37.2
MAP	2013 & prior years	141.6	113.1
	2014 year	95.3	77.5
	2015 year	52.8	40.7
Total claims reserves		1,157.9	873.7
Unearned premiums (net of deferred acquisition costs)		270.9	232.5
Total reserves		**1,428.8**	**1,106.2**

2015 annually accounted result

In 2015 much of Syndicate 2007's business benefited from a comparatively benign natural catastrophe claims experience. Consequently the strong operating performance on an annual accounting basis has resulted in returns above planned levels. The reported result after foreign currency translation differences was £74.7 million (2014: £77.6 million).

Included within the profit is an amount of £33.6 million in respect of releases to reserves on 2013 and prior underwriting years (2014: £26.8 million in respect of reserve releases from 2012 and prior underwriting years). The additional margin held above actuarially determined best estimate in the syndicate at 31 December 2015 was £41.6 million (2014: £40.1 million).

The continuing low interest rate environment and a prudent investment strategy constrained the ability of investment return to contribute to the overall result, notwithstanding the scale of held reserves referred to above. In 2015 the overall contribution to profit from investment return, net of investment management expenses, was £4.8 million (2014: £11.1 million). This represents an average investment return of 0.5% on average invested funds of £920.3 million (2014: average investment return of 1.3% on average invested funds of £882.6 million).

Net operating expenses were £255.0 million (2014: £208.7 million). This includes earned acquisition costs of £174.2 million (2014: £140.4 million), representing a ratio to net earned premium of 27.4% (2014: 26.3%). Syndicate administrative expenses were £70.4 million (2014: £60.0 million).

While the annually accounted result provides a summary of trading experience in the calendar year, capital providers will find it helpful to consider the overall experience on each underwriting year. This is provided by the following comments:

CHAIRMAN'S STATEMENT (continued)

2013 underwriting year result on closure at 36 months

The 2013 year of account has been closed after 36 months with a profit of 13.4% of stamp capacity after the deduction of managing agent's profit commission, towards the top of the latest forecast range of 10%-15%. As shown in note 5 on page 75, included within this result is a profit of £34.7 million on business transacted in prior years inherited through the incoming reinsurance to close of the 2012 year of account.

On closure of the 2013 pure year of account the projected ultimate net loss ratio is 66%, which compares with 77% on the pure 2012 year of account at the same stage.

2014 underwriting year at 24 months

The net incurred loss ratio at 24 months is 49%, which compares with 46% on the 2013 underwriting year at the same stage. While the contribution from investment return to the eventual outcome on closure is again likely to be constrained by low interest rates, another satisfactory outcome appears to lie in prospect, helped by the benign natural catastrophe and attritional claims experience in calendar years 2014 and 2015. At this stage the managing agency is forecasting a profit in the range 4%-9%.

2015 underwriting year at 12 months

The low level of natural catastrophe claims experience in calendar year 2015 has produced a favourable experience after 12 months with a net incurred loss ratio at 12 months of 25%, the same as on the 2014 underwriting year at the same stage. However at this early stage, with much of the business written still on risk, it would be premature to make any firm predictions about the likely outcome.

Directorate changes

The Board saw a number of directorate changes in 2015. Jeremy Adams retired from the Board in March 2015 after twelve years of service as Chief Executive Officer. Jeremy was instrumental in providing direction and oversight in the management of the syndicate and developing the stability and strength that it exhibits today. I am delighted that the Board appointed Jonathan Butcher as his successor.

I would like to thank Sir Bryan Carsberg who retired as Chairman of the managing agency and to Mary Phibbs, Laurie Adams and David Henderson, all of whom retired from non-executive positions on the Board in December 2015. Each made an invaluable contribution to the success of the syndicate over the years. I am delighted that David Pye continues his role as a non-executive Director of NSL.

Finally I am pleased to welcome Diane Côté who joined the Board as a non-executive Director in November 2015. Diane also chairs the Joint Audit and Risk Committee of the Board bringing to bear her wealth of experience in financial services.

Concluding remarks

The syndicate has produced another pleasing profit on the closed underwriting year. The managing agent continues to build and refine the business base of Syndicate 2007 by refocusing and diversifying its portfolio and maintaining reserve strength.

CHAIRMAN'S STATEMENT (continued)

Novae is extremely fortunate to have the breadth of skills evident in the development and performance of Syndicate 2007. On behalf of the managing agency, I thank the Active Underwriter, fellow Directors and staff of Syndicate 2007 for their efforts and achievements in the year under review. I believe that they will continue to provide a sound base for the syndicate in the future.

M P Hudson
Chairman
15 March 2016

MANAGING AGENT'S REPORT

The Directors of NSL present the report on the activities of Syndicate 2007 for the year ended 31 December 2015. This annual report has been prepared using the annual basis of accounting, as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the "Lloyd's Regulations 2008") and is shown on pages 22 to 63.

Separate underwriting year accounts for the 2013 closed year have been prepared for the members of this year of account and are shown on pages 68 to 78.

Review of the business

The principal activities and business review of the Syndicate are summarised in the Chairman's Statement on pages 4 to 8.

The result for the calendar year 2015 is a profit of £74.7 million (2014: profit of £77.6 million).

Risk Management Strategy & Objectives

The Risk Management function covers the management of all risks that could affect NSL's ability to meet its strategic objectives. NSL has developed the following risk management objectives:

- Align risk appetite with strategic objectives
- Promote effective risk based decision-making
- Manage loss volatility
- Identify and manage multiple and cross-enterprise risks
- Seek out and capitalise on opportunities
- Ensure effective deployment of capital
- Ensure overall efficiency, security and continuity of operations

Risk management is at the heart of NSL's business and is seen as a driver of competitive advantage.

Key performance indicators ("KPIs")

- Profit of £74.7m (2014: £77.6m)
- Underlying year-on-year growth in gross written premium, at constant exchange rates, of 19.7% (2014: 14.0%)
- Investment return of 0.5% on invested assets (2014: 1.3%)
- Overall GAAP loss ratio of 48.5% (2014: 48.2%)

Enterprise Risk Management Framework

NSL has developed an Enterprise Risk Management ("ERM") framework with the objective of providing a consistent view of risk that is aligned and integrated with strategic decision-making, and reflecting a defined risk appetite.

As part of this, NSL adopts a three lines of defence model, summarised below:

First Line: Business Management	Second Line: Risk Management	Third Line: Internal Audit
Primary responsibility for risk and control procedures. This includes risk identification, assessment, mitigation and monitoring, as well as the design, implementation and performance of internal controls.	Responsibility for facilitating and monitoring effective risk management in the first line. This includes oversight and challenge of operational management procedures, and reporting to the NSL Audit and Risk Committee and Board. The Compliance function performs a similar second line role in respect of compliance with relevant regulatory requirements.	Responsibility for providing independent assurance on the effectiveness of governance, risk management, compliance and internal controls. Reports to NSL Audit and Risk Committee.

The ERM Framework is integral to the way in which NSL manages its business. The key features of the framework are summarised as follows:

- Risk appetite statements have been developed to serve as an articulation of NSL's appetite for risk. An updated set of Risk Appetite Statements was approved by the Novae Group Board in October 2015, and subsequently adopted by NSL Board. This refresh has resulted in some changes to the way we express our appetites, although the level of risk sought remains broadly in line with our prior position. The refreshed risk appetite framework is better aligned to business operations and is helping us to ensure consistency between operational procedures and Group-level risk appetite.

- Overall risk appetite expressed as a Group Economic Capital Requirement, which is then cascaded to a collection of Tier 1 Risk appetite statements for material risk exposures.

- Each Tier 1 risk category is divided into a number of Tier 2 risks, which have a corresponding risk appetite, which are set to ensure that the operations of the business maintain risk exposure within the overall Tier 1 appetite as defined by Board.

- Business planning is an annual process. NSL prepares an annual business plan in accordance with NSL's strategy and risk appetites.

- The Internal Model is a set of processes and tools, including a stochastic risk model, used by the business to quantify and manage risk against appetite, and to calculate the Solvency Capital Requirement ("SCR"). The NSL Audit and Risk Committee[1] has oversight of the Internal Model, for which day to day responsibility is delegated to the Chief Risk Officer. The Internal Model is built and operated by the Actuarial Function, led by the Group Actuary. The review of parameterisation, model results and model changes - in accordance with the model change policy - is performed by the NSL Audit and Risk Committee.

[1] From 1st January 2016, the Risk Committee was replaced by the NSL Audit and Risk Committee.

- A solvency assessment is performed on a continuous basis to review the composition of the capital available to meet the regulatory capital requirement.

- The risk management function has developed a number of tools to assist the monitoring, mitigation and management of risks. The risk matrix records the principal risks to the business, and documents the key controls applied to mitigate those risks.

- Stress and scenario analyses are performed periodically, to understand further the risks facing the business, test compliance with risk appetite and support the development of mitigation strategies.

  An Emerging Risks Working Group is charged with identifying, investigating and reporting new or developing insurance risks and trends Novae may be exposed to. Membership includes stakeholders across the business, and an annual meeting is conducted to identify emerging risks for escalation to the relevant Sub-Committees.

- The role of monitoring risk exposures is delegated to the NSL Audit and Risk Committee.

- A Quarterly ORSA (Q-ORSA) process brings together core risk assessment and response processes. This is a focused report that summarises key risk information, including:

  - the as-is and projected position against risk appetite
  - risk exposure and control performance
  - emerging risks
  - material risk events
  - available capital

  These Q-ORSAs support the production of the annual ORSA report.

Risk Management Oversight and Governance

During 2015, the Boards of Novae Group plc and Novae Syndicates Limited operated a Risk Committee which has oversight responsibility for the Risk Management Framework of the Group. The role of monitoring risk exposures is delegated by the Risk Committee to a number of functional sub-committees, which have responsibility for the management of specific risks bar strategy and group risks, which remain the responsibility of the Board of Novae Group plc.

From January 2016 onwards, risk management governance is being amended to provide clarity of responsibility between Group governance and specific subsidiary governance (and in particular, the governance of Syndicate 2007). The NSL Audit and Risk Committee has been established in order to allow full consideration of risks that may impact NSL, with the remit of the Group Risk Committee remaining the same, albeit allowing a sharper focus on strategic and Group-level risk issues.

A Group Risk Management Function, headed by the Chief Risk Officer, provides day-to-day support to the NSL Audit and Risk Committee in its role of oversight, monitoring and reporting on the risks facing NSL.

The risk and control environment is subject to continuous internal review by the NSL Audit and Risk Committee. It ensures ongoing compliance with the latest requirements of Lloyd's, the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") and other overseas regulators as appropriate.

Further assurance is provided by Internal Audit. This overall assurance includes a review of the Risk Management Framework to determine the extent to which reliance can be placed on risk assessments performed by the Risk Management function.

This review forms part of the process for generation of an internal audit plan. The planning process reviews the risks involved in each area of operation by reference to the risk matrix as well as discussions with senior management and Non-Executive Directors and, based on the review and discussions, determines the inclusion of a particular area in the plan and also how often the particular area should be considered. The plan is subject to amendment if a risk changes significantly during the year with any material changes to the audit plan being agreed with the NSL Audit and Risk Committee.

The internal audit process takes the risks relating to an area of operation and matches them to controls designed to mitigate those risks. Each audit completed is the subject of a formal written report, which includes an action plan agreed by management.

The final reports are then circulated to senior management.

A separate quarterly report is circulated to the NSL Audit and Risk Committee, which provides a summary of the various audits and findings, together with agreed actions. Actions are tracked through to completion, with action plan status being reported to Audit and Risk Committee members on a monthly basis.

Key risks

The table below highlights the Principal risks to NSL. Within this table, the following definitions are used for appetite:

- ***Positive Appetite*** signifies a strategic desire for a particular risk, within defined limits
- ***Neutral Appetite*** signifies a measured acceptance of a particular risk
- ***Negative Appetite*** signifies a general intention to avoid a particular risk, to the extent it is practical and commercial to do so

MANAGING AGENT'S REPORT (continued)

Risk category	Description of the risk	Appetite	Trend	Key mitigations
Core risks – we have the expertise and experience to price and manage core risks to derive a profit. Our strategy therefore focuses on selecting, pricing and managing these risks to deliver economic returns.				
Underwriting risk				
Catastrophe	The potential for aggregated losses to arise from catastrophic events.	Novae has a positive appetite for catastrophe risk. We seek to diversify our exposures across our core (re)insurance book, but recognise the potential for aggregate losses arising from natural or man-made catastrophic events.	Growth of exposures from underwriting opportunities in some niche areas is partially offset by the increased use of reinsurance to cover peak exposures.	Underlying strategy and geographical diversification. Monitoring and controls of aggregate exposures and disaster scenarios across multiple return periods. Strategic reinsurance purchase.
Non-catastrophe	The risk of adverse loss experience arising from small or large individual insurance claims (including the risk of mispricing underlying insurance contracts)	Novae has a positive appetite for non-catastrophe underwriting risk. Our residual appetite for Underwriting risk – non-catastrophe is determined by our available capital and the adequacy of returns available in the market.	Continued pressure on rates has been offset by strategic diversification and dynamic allocation of capital away from underperforming units.	Niche book of specialist insurance business. Focus on underwriting profitability, with regular monitoring of underwriting performance. Proprietary pricing models and regular rate adequacy monitoring including the effect of changes in terms & conditions. Underwriting protocols limit exposure to individual large losses. Strategic reinsurance purchase.
Reserving	The risk that claims reserves will be materially different from the ultimate cost of settlement.	Novae has a neutral appetite for reserving risk. We recognise the uncertainty in estimating claim amounts in advance of final settlement. Our appetite for reserving risk is set in our reserving policy, which requires that reserves are set prudently, with target margin ranges in excess of the actuarial 'best estimate'.	The margin held over the actuarial best estimate reserves remains stable around the top end of our target ranges.	Use of proprietary and standard reserving models. Internal and external reserve benchmarking. Claims development review.

Risk category	Description of the risk	Appetite	Trend	Key mitigations
Investment risk	The risk of economic losses arising from fluctuations in the value of our asset and liability portfolio driven by economic variables.	Novae has a positive appetite for investment risk. A measured level of investment risk is sought as it offers the potential for enhanced returns, and diversifies from core underwriting risk exposures. This risk is measured on an "asset – liability" basis.	Change in the Investment Strategy in 2015 has brought economic matching of assets and liabilities, with an explicit allocation to risk assets such as equities. This has reduced the economic risk from asset-liability mismatches, replacing it with risk asset exposure. This gives a higher expected return, with the potential for volatility in reported results, as has been seen for 2015.	Asset-Liability modelling techniques to ensure all sources of investment risk are considered. Strategic Asset Allocation process to optimise the risk and reward balance. Investment modelling and stress testing to ensure risk exposures remain within appetite. Investment guidelines monitoring.

Non-core risks arise as a consequence of executing the strategy for core risks. We do not actively seek to generate economic return from these risks, but to control exposure that arises in the course of business.

Risk category	Description of the risk	Appetite	Trend	Key mitigations
Credit	The risk arising from the potential failure of business counterparties to fulfil financial obligations to Novae Group. Reinsurance protection is a key tool for managing our underwriting exposures, and this requires a measured acceptance of credit risk. This excludes investment counterparties, which are considered as Investment Risk.	Novae has a neutral appetite towards credit risk. Credit risk arises through Novae's normal commercial operations, the most material of which is ceded reinsurance. We generally seek to reduce this risk via controls over counterparty exposures. We do not seek to generate economic returns via the assumption of counterparty credit risks.	Increased exposure to some reinsurance counterparties has arisen as reinsurance usage has increased in response to increases in gross underwriting exposures.	Specific risk controls are operated at a counterparty level, to ensure appropriate security for all reinsurance. Guidelines support careful selection and monitoring of counterparties, including limits to individual exposures. Purchase of collateralised reinsurances.
Liquidity	The risk of not being able to meet our liabilities as they fall due, or incurring excessive costs to do so.	Novae has a negative appetite for liquidity risk. We generally seek to reduce the potential that there might be insufficient funds available to meet claims.	We continue to maintain a high allocation to cash and liquid assets, and monitor against minimum liquidity targets on a regular basis.	Strategic liquidity target Stress testing of available liquidity against requirements in catastrophe situations. Strategic asset allocation considers duration match between assets and liabilities. Limits on allocation to assets that may become illiquid in times of stress.

MANAGING AGENT’S REPORT (continued)

Risk category	Description of the risk	Appetite	Trend	Key mitigations
Operational	The risk arising from inadequate or failed processes/systems, people, or external events.	Novae has a negative appetite towards operational risk. We seek to reduce exposures subject to cost and practical considerations, recognising that operational risks arise in all business systems and processes, and to eliminate these risks entirely would entail excessive costs.	Growth in the business and changes in structure have increased operational complexity; this has been offset by improvements in systems, processes and controls to enhance operational capabilities. 2015 has seen some large strategic projects in operations, which have been tightly managed according to our project methodology.	Operational control system that covers all material business processes keeping the likelihood and impact of operational failures within acceptable bounds. Change management controls, including a project methodology. Detailed Business continuity planning Succession planning, talent management and effective remuneration controls.

Disclosure of information to the auditor

Each person who is a director of the managing agent at the date of approval of this report confirms that, so far as the director is aware, there is no relevant audit information of which the syndicate’s auditor is unaware, and each director has taken all the steps he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the syndicate’s auditor is aware of that information.

Syndicate Annual General Meeting and reappointment of auditor

As permitted under the Syndicate Meeting (Amendment No.1) Byelaw (No. 18 of 2000), it is not proposed to hold a Syndicate Annual General Meeting of members of Syndicate 2007. Members may object to the matters set out above within 21 days of the issue of these accounts. Any such objections should be addressed to S J Heming, Compliance Officer, at the managing agent’s registered address set out below.

PricewaterhouseCoopers LLP (PwC) acted as auditor of Syndicate 2007 during the period under review and their reports on the Annual Accounts and the closing 2013 Year of Account are at pages 19 and 66 respectively. Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and PwC will therefore continue in office.

MANAGING AGENT'S REPORT (continued)

General

The directors wish to express their appreciation to all the staff for their efforts and support during the last year.

Approved by the directors of Novae Syndicates Limited on 15 March 2016.

J L J Butcher
Chief Executive Officer

Novae Syndicates Limited
21 Lombard Street
London EC3V 9AH

ANNUAL ACCOUNTS AT 31 DECEMBER 2015

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts for Syndicate 2007 at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") and Financial Reporting Standard 103 'Insurance Contracts' ("FRS103"). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of Syndicate 2007 as at that date and of its profit for that year.

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

a) select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;

b) make judgements and estimates that are reasonable and prudent;

c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and

d) prepare these financial statements on the going concern basis unless it is inappropriate to presume that there will be future years of account of the syndicate.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 2007

Report on the syndicate annual accounts

Our Opinion

In our opinion, Syndicate 2007's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year ended 31 December 2015, included within Report & Accounts 2015 (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss Account for the year then ended;
- the statement of changes in members' balances;
- the statement of cash flows;
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

INDEPENDENT AUDITOR'S REPORT (continued)

Other matters on which we are required to report by exception
Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 18, the Managing Agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

INDEPENDENT AUDITOR'S REPORT (continued)

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Nick Wilks (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2016

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT

For the year ended 31 December 2015

	Notes	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Earned premiums, net of reinsurance					
Gross premiums written	**4**	**789,338**		659,413	
Outward reinsurance premiums		**(103,389)**		(73,411)	
Change in the provision for unearned premiums					
Gross amount	**5**	**(62,232)**		(54,914)	
Reinsurers' share	**5**	**11,680**		2,412	
			635,397		533,500
Allocated investment return transferred from the non-technical account			**4,818**		11,102
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(343,922)**		(307,940)	
Reinsurers' share		**62,624**		42,315	
Change in the provision for claims					
Gross amount	**5**	**12,348**		20,454	
Reinsurers' share	**5**	**(39,235)**		(12,034)	
	6		**(308,185)**		(257,205)
Net operating expenses	**7**		**(254,971)**		(208,662)
Balance on the technical account			**77,059**		78,735

All results for the year and prior year relate to continuing activities.

The notes on pages 28 to 63 form part of these financial statements.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT
For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Balance on the technical account		**77,059**	78,735
Investment income	11	**17,200**	16,236
Unrealised gains on investments		**2,119**	3,706
Investment expenses and charges	12	**(7,202)**	(4,787)
Unrealised losses on investments		**(7,299)**	(4,053)
Allocated investment return transferred to the technical account		**(4,818)**	**(11,102)**
Loss on foreign exchange		**(2,350)**	(1,105)
Profit for the financial year		**74,709**	**77,630**

All results for the year and prior year relate to continuing activities.

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the statement of profit or loss, therefore under FRS102 3.19 we have chosen to present only an income statement in these financial statements.

We have amended the titles of the financial statements that are used in FRS 102 to be more consistent with the titles used in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The notes on pages 28 to 63 form part of these financial statements.

BALANCE SHEET: ASSETS

As at 31 December 2015

Assets	Notes	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Investments					
Other financial investments	**13**		**937,847**		856,309
Reinsurers' share of technical provisions					
Provision for unearned premiums	**5**	**38,446**		25,522	
Claims outstanding	**5**	**284,263**		321,238	
			322,709		346,760
Debtors					
Debtors arising out of direct insurance operations	**14**	**174,600**		137,521	
Debtors arising out of reinsurance operations	**15**	**158,749**		130,982	
Other debtors	**16**	**1,686**		493	
			335,035		268,996
Other assets					
Cash at bank and in hand	**22**	**32,257**		79,457	
Other assets	**17**	**1,839**		2,085	
			34,096		81,542
Prepayments and accrued income					
Accrued interest		**5,262**		4,218	
Deferred acquisition costs	**23**	**138,808**		114,601	
Other prepayments and accrued income		**10,847**		11,503	
			154,917		130,322
Total assets			**1,784,604**		1,683,929

The notes on pages 28 to 63 form part of these financial statements.

BALANCE SHEET: LIABILITIES
As at 31 December 2015

Liabilities	Notes	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Capital and reserves					
Members' balances	**18**		**147,652**		126,887
Technical provisions					
Provision for unearned premiums	**5**	**409,729**		338,054	
Claims outstanding	**5**	**1,157,915**		1,162,555	
			1,567,644		1,500,609
Creditors					
Creditors arising out of direct insurance operations	**19**	**24,359**		20,163	
Creditors arising out of reinsurance operations	**20**	**29,021**		22,319	
Other creditors	**21**	**14,126**		11,341	
			67,506		53,823
Accruals and deferred income			**1,802**		2,610
Total liabilities			**1,784,604**		1,683,929

The financial statements were approved by the Board of Novae Syndicates Limited on 15 March 2016 and were signed on its behalf by:

M A Hudson
Director

The notes on pages 28 to 63 form part of these financial statements.

STATEMENT OF CHANGES IN MEMBERS' BALANCES
As at 31 December 2015

		2015 Members' Balances £'000	2014 Members' Balances £'000
Year ended 31 December 2015	**Notes**		
Total recognised income for the year		74,709	77,630
Total recognised in other comprehensive income for the year		-	-
Total comprehensive income for the year		**74,709**	**77,630**
Transfer to members' personal reserve funds		(53,944)	(38,021)
Net increase in equity		20,765	39,609
As at 31 December 2014		126,887	87,278
As at 31 December 2015	**18**	**147,652**	**126,887**

The notes on pages 28 to 63 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Operating profit on ordinary activities		**74,709**	77,630
Adjustments for:			
Increase in net technical provisions		**91,087**	58,522
(Increase) in debtors		**(90,388)**	(38,031)
Decrease/(increase) in creditors		**12,875**	(3,201)
Investment return		**(4,818)**	(19,003)
Net cash inflow from operating activities		**83,465**	75,917
Cash flow from investing activities:			
Purchase of equity and debt instruments		**(1,135,096)**	(575,616)
Sale of equity and debt instruments		**1,116,802**	519,814
Purchase of derivatives		**(329)**	-
Investment income received		**2,830**	-
Movement in overseas deposits		**12,070**	14,609
Net cash from investing activities		**(3,723)**	(41,193)
Cash flow from financing activities:			
Transfer to members in respect of underwriting participations		**(54,445)**	(38,074)
Non-standard personal expenses		**277**	3
Net cash (used in) financing activities		**(54,168)**	(38,071)
Net increase / (decrease) in cash and cash equivalents		**25,574**	(3,347)
Opening cash and cash equivalents		**98,512**	102,621
Effect of exchange rates on cash and cash equivalents		**(2,764)**	(762)
Closing cash and cash equivalents	**22**	**121,322**	98,512

The notes on pages 28 to 63 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

These annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") and Financial Reporting Standard 103 'Insurance Contracts' ("FRS103").

The financial statements for the year ended 31 December 2015 are the first financial statements that comply with FRS 102 and FRS 103. The date of transition is 1 January 2014. The transition has resulted in a small number of changes in accounting policies to those used previously. The nature of these changes and their impact on opening equity and profit for the comparative period are explained in the notes below.

The annual accounts comprise the calendar year movement in the 2013, 2014 and 2015 years of account of Syndicate 2007.

Going concern

The Syndicate has adequate financial resources, together with long-term relationships with a diverse group of insureds and intermediaries across different geographic areas and industries. As a consequence the directors believe that the syndicate is well-placed to manage its business risks successfully.

The directors have a reasonable expectation that the syndicate has adequate resources to enable it to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2 Accounting policies

Basis of accounting

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the syndicate's annual accounts.

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

(i) Gross Premiums written

Generally, written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums recognised in respect of binder or consortium agreements are recognised linearly over the duration of the agreement. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. Premiums written include adjustments to contracts entered into in prior accounting periods as well as estimates for future premiums.

An estimate is made at the balance sheet date to recognise retrospective adjustments to premiums or commissions.

(ii) Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent accounting periods, computed separately for each insurance contract in line with the risk exposure profile. Reinsurance premiums ceded are recognised in line with the related inward business and the unearned portion included within reinsurance contract assets.

(iii) Outwards reinsurance and reinsurance premiums

The syndicate cedes (re)insurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of risk. Outward reinsurance premiums are accounted for in the same period as the premiums for the related insurance or inwards reinsurance business.

(iv) Claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

(v) Claims provisions and related recoveries

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not, and related internal and external claims handling expenses.

The ultimate liability as a result of outstanding claims will vary due to subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material.

(vi) Deferred acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance and reinsurance contracts. Deferred acquisition costs represent the proportion of acquisition costs which will be expensed in subsequent years. Acquisition costs are deferred only to the extent that available future margins are expected to cover them.

(vii) Liability adequacy testing

At each balance sheet date, liability adequacy tests are performed at class of business and reviewed at whole account level to ensure the adequacy of the liabilities from insurance and reinsurance contracts net of deferred acquisition costs. In performing these tests, current best estimates are used of future contractual cash flows, claims handling and administration expenses as well as investment income from the assets backing such liabilities. Any deficiency is immediately expensed, initially by writing off acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (unexpired risk provision).

(viii) Reinsurance

The syndicate buys reinsurance in the normal course of business for the purpose of limiting its net loss potential.

Reinsurance assets include amounts recoverable from reinsurers for losses and loss adjustment expenses. If a reinsurance asset is impaired, NSL reduces its carrying amount accordingly, and immediately recognises the impairment loss in the income statement. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event occurring after initial recognition of the asset, that NSL may not receive all amounts due to it under the terms of the contract, and that the event has a reliable measurable impact on the amounts that NSL will receive from the reinsurer.

(ix) Foreign exchange

Items included in the financial statements are measured using sterling as this is the functional and presentational currency, being the primary currency of the economic environment in which NSL operates. Transactions in foreign currencies are revalued using the average exchange rates applicable to the period in which the transaction occurs. NSL considers these to be a reasonable approximation of the rate at which the transaction actually took place.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

(x) Investments

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

The Syndicate has applied the recognition and measurement provisions of IAS 39 and the disclosure requirements of FRS 102 sections 11 and 12.

(xi) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at fair value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and the valuation of the same investments at the previous balance sheet date or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Investment return is initially recorded in the non-technical account. A transfer is then made to the general business technical account to reflect the investment return on funds supporting the underwriting business. All investment return is considered to arise on such funds.

(xii) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'members' balances' pending recovery from members via the Lloyd's Members' Services unit through consolidated personal accounts.

No provision has been made for any other overseas tax payable by members on underwriting results.

(xiii) Net operating expenses

Net operating expenses consist of acquisition costs, Lloyd's charges and processing costs arising in the period.

The syndicate is charged a managing agency fee at a rate of 0.75% of stamp capacity with all necessary and reasonable expenses incurred in the administration of the syndicate being charged to the syndicate. Where expenses do not relate solely to Syndicate 2007, they are allocated between other Novae group companies on such a basis as may be equitable for each type of expense. Where expenses do not relate to any specific year of account they may be apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense. Where expenses are incurred jointly between the syndicate and other Novae group companies, they are apportioned to the syndicate as appropriate.

Profit-related remuneration of certain underwriting and non-underwriting employees was charged to the syndicate during the year. Profit-related remuneration relating to the directors is not charged to the syndicate.

(ix) Pension costs

The Group operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate as incurred and are included within net operating expenses.

(x) Related Parties

Related party disclosures, including those relating to the directors, are outlined in note 24 of these financial statements.

Critical accounting judgements and estimation uncertainty

The preparation of financial statements 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 results.

The syndicate's greatest area of estimation relates to claims provisions in respect of insurance and reinsurance contracts, the carrying values of which are outlined in note 5 of these financial statements. The estimates and assumptions are reviewed on an ongoing basis. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of change.

The nature and assessment of certain risks arising from estimate uncertainty are also outlined in greater detail within the risk management note below.

3 Risk management

Syndicate 2007 ("the syndicate") is managed by NSL as an integral part of the Novae Group. Risks are assessed by NSL as follows:

Core risks

3.1 Underwriting

Underwriting risk is the principal risk to which Novae is exposed and results from fluctuations in the timing, frequency and severity of insured losses, relative to expectations at the time of underwriting. This may manifest in a number of ways, for example the severe impact of accumulation from catastrophic events, mis-pricing at the point of underwriting, changes in interpretation in contractual terms. NSL categorises underwriting risk into catastrophe, non-catastrophe and reserving risk.

The Risk Committee has delegated functional oversight of the management of insurance risk to the Underwriting and Reinsurance Committee ("URC") (in the case of catastrophe and non-catastrophe risk) and to the Reserving Committee (in the case of reserving risk).

The sources of underwriting risk and key techniques applied to mitigate them are discussed below.

3.1.1 Underwriting risk: Catastrophe

Catastrophes and risk accumulations have the scope individually to exert a material impact on underwriting performance and the oversight of catastrophe risk involves managing and analysing such exposures.

NSL has a positive appetite for catastrophe risk. Catastrophe exposures are diversified across the portfolio, but the potential is recognised for aggregate losses arising from natural or man-made catastrophic events. This risk through the application of aggregate limits and purchase of reinsurance protection controls our exposure to extreme losses. NSL manages and controls aggregate exposure across multiple return periods, and across the many different potential accumulations of risk that exist within a diversified (re)insurance portfolio.

A distinct risk appetite is formulated for this risk, both in aggregate and at the level of individual perils, with considerable variation according to the nature of the event concerned. This variation reflects both the scale of underwriting activity in different areas, the potential returns available, and the probability of different loss events occurring.

The Novae Group Board sets the overarching appetite for exposure to catastrophe events. The Group Board and the Board of NSL expresses the peril level appetite for its major catastrophe risk using a scenario-based approach historically referred to as Willingness to Lose ("WTL"). WTL is defined as the maximum loss net of reinsurance and reinstatement premiums that the Group is prepared to absorb from any one modelled event of a particular level of severity under specified assumptions. Over 2015, the WTL approach has been refreshed and expanded to cover a wider range of scenarios.

The scenarios and assumptions underpinning this modelling are reviewed on a regular basis by senior management and the principal instances of aggregation of risk are regularly monitored and reported to the Risk Committee and Boards through the Quarterly ORSA report. This monitoring takes place on an in-force and prospective basis. Any breaches or potential breaches of limits are reported to the Risk Committee and the NSL Board together with any remedial action taken.

This analysis focuses on in-house scenarios but also makes use of a number of scenarios defined by Lloyd's, upon which the Board of NSL is required to report. An in-depth review of both in-house and Lloyd's scenarios is undertaken at the time of the submission to Lloyd's. This is subject to a review of the assumptions made in the assessment and is then presented to the NSL Board for approval before submission to Lloyd's. This is supplemented by quarterly reporting of RDS to the URC and the NSL Board and by ad hoc reviews of WTL and RDS as appropriate throughout the year.

The potential for accumulation of losses from multiple events in the same year is considered by NSL and reported in the Quarterly ORSA process, although a specific appetite is not defined.

NOTES TO THE FINANCIAL STATEMENTS (continued)

A summary of the Group's in-force exposure to a selection of current scenarios below with the corresponding limits as at 1 January 2016 is as follows:

Scenario (unaudited)	Target Range	Net RDS impact on Novae
*Florida windstorm (US $75bn insured loss - in-house scenario)	US $104m - $156m	US $107m
*California earthquake (US $50bn insured loss - in-house scenario)	US $104m - $156m	US $105m
*Gulf of Mexico windstorm (US $60bn insured loss - in-house scenario)	US $104m - $156m	US $70m
*NE USA windstorm (US $50bn - in-house scenario)	US $104m - $156m	US $58m
European windstorm (Lloyd's scenario)	£70m - £104m	£32m
Japanese Earthquake (US $53bn insured loss)	£58m – £88m	£30m
UK East Coast windstorm	£70m - £104m	£23m
Corporate collapse following a merger (in-house scenario)	£32m - £48m	£23m
Aviation single airliner	US $24m - $36m	US $29m
Credit & political event (in-house scenario)	US $45m - $67m	US $22m
Marine collision (in-house scenario)	US $48m - $72m	US $14m

Note that the highlighted scenarios would benefit from additional reinsurance recoveries of up to $33.75m from an expiring reinsurance programme for losses occurring prior to 1 June 2016. This cover is not reflected in the net impact figures above to aid comparability with prior year disclosures.

The above list is not exhaustive, and c.60 scenarios are monitored individually as at 1 January 2016, with further scenarios continuously considered for inclusion where the syndicate's exposure to given aggregations increases or we become aware of new sources of potential aggregation.

In addition to particular natural loss events, NSL also considers the impact of non-natural catastrophes. As an example, one such scenario is a corporate collapse following a merger and related fundraising activity. This has the potential to affect a number of exposures in the banking and professional indemnity spheres. Other non-natural events modelled include aviation, marine and energy disasters, terrorism events and various possible scenarios with the potential to affect political risks and credit business. It should be noted that there is a greater degree of uncertainty around exposure to these events, arising both from the nature of potential aggregations and the uncertainty around the impact of insured events on potentially exposed policies.

Some scenarios produce a potential impact that is small at the syndicate level yet may be material in the context of the premium derived from accepting exposure to that risk. The objective of aggregate management in the Group is to derive an appropriate return for the risk assumed as well as limiting peak exposures. The limits on exposure in these less significant areas are therefore set at lower levels.

3.1.2 Underwriting risk: non-catastrophe

The syndicate is also exposed to risks arising from non-catastrophe loss experience. This is defined as variation in underwriting results that arises from sources other than specific catastrophe events. This could arise in many ways - for example from the underlying variability in claim sizes and frequencies, from variation in pricing and the insurance market cycle, or from changes in policy interpretation leading to new sources of claims.

The syndicate has a positive appetite for non-catastrophe underwriting risk. We seek to underwrite a diverse book of specialty (re)insurance to achieve underwriting profits, and recognise the risk that this brings in terms of the variability of results. Our appetite for this risk is determined by our available capital and the adequacy of returns available in the market.

The syndicate's underwriting is managed and reported through three trading divisions: Property, Casualty and Marine, Aviation & Political Risk ("MAP"). Each segment is divided into sub-divisions and, at a granular level, underwriting units.

The risk of adverse loss experience is mitigated by controlling the nature and quality of business underwritten. This is achieved through:

- The use of a set of agreed underwriting protocols; these are produced for each unit and are reviewed at least annually in conjunction with the agreed business plans. These protocols supplement unit plans and provide a clear framework for, and limits to, underwriting authority
- Internal peer reviews of risks written to confirm adherence to the protocols
- Independent external review of samples of risks from most units by a panel of experts who document any concerns and questions. This review is discussed with the Chief Executive of NSL and senior underwriters, and a regular report is provided to the NSL Board
- Premium rating and rate monitoring controls to ensure that premiums are commensurate with the risks associated with business written
- Specific reinsurance transactions which reduce the impact of individual large losses to the syndicate, and a number of strategic quota-share arrangements; and
- Claims management controls, to manage the variability of possible outcomes of disputed claims, unanticipated legal judgements and retrospective legal change when compared to expectations at the time of underwriting

Furthermore, the risk of over-concentration in any one line of business or uncontrolled volumes of transactions is managed through monitoring of premium income against agreed business plans. Premium income monitoring data is circulated weekly and reported monthly to each trading division.

3.1.3 Underwriting risk: reserving

Reserving risk is the risk that claims reserves and related claims handling reserves will be materially different from the ultimate cost of settlement, influenced principally by the occurrence, value and timing of claims.

NSL has a neutral appetite for reserving risk, which arises inherently from underwriting activities, and the need to estimate uncertain claim amounts in advance of final settlement. Our appetite for reserving risk is determined by our reserving policy, which requires that reserves are set prudently, with an explicit margin in excess of the actuarial best estimate.

The Risk Committee has delegated the management of reserving risk to the Reserving Committee ("RC"). Key to the mitigation of reserving risk is the use of proprietary and standardised modelling techniques, with assurance provided by internal and external benchmarking and appropriate claims development review.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group Board seeks to establish realistic and accurate reserves for each category of business underwritten. However, it is inherent in the nature of a reserving exercise that instances may arise where subsequent developments, including new information, result in changes to the assessment of reserves required for particular business segments, either upwards or downwards. The risk of adverse movements in reserves is mitigated through the following key processes and controls:

- The actuarial team performs a reserving analysis liaising closely with underwriters, claims and reinsurance staff. It is charged with reporting its conclusions on the basis of an actuarial best estimate. In a statistical context, a best estimate should be interpreted as the mean of all possible outcomes. This means that the downside risk (reserves deteriorating) will be balanced by the upside potential (reserves improving)
- The RC performs a review of the projections produced by the actuarial team, both gross and net of reinsurance, on a quarterly basis. Following this review the RC makes recommendations to the NSL Board as to the quantum of reserves to be established
- The Group Chief Actuary produces a quarterly reserving analysis for management, which sets out a review of developments in the quarter compared to the best estimate expectation. This enables management to identify emerging issues for action at the earliest stage possible
- On an annual basis, an external actuarial consultant is commissioned to produce an independent reserve estimate. This is presented to the Reserving Committee and Audit Committee, along with a detailed comparison between internal and external views of the best estimate reserves

Given the elements of uncertainty relating to the data and assumptions, a margin is applied over and above the actuarial best estimate. This increases the reserves reflected in the Group accounts above the mean expectation. To indicate the potential impact of reserving risk on the Group, were there to be a 1% variation in the Group's total net claims reserve, there would be a pre-tax effect of £8.8 million (2014: £8.7 million). Net assets (applying the standard rate of UK corporation tax) would be impacted by £7.1 million (2014: £6.8 million).

Claims development tables, setting out the development of claims over time on a gross and net of reinsurance basis are provided below.

Whole acount Underwriting year	2010 & Prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	
Gross claims							
Estimate of ultimate gross claims:							
- at end of underwriting year	1,260.6	389.1	354.2	340.1	394.9	434.7	
- one year later	1,335.5	366.8	339.4	318.9	374.4		
- two years later	1,338.2	380.0	344.0	317.3			
- three years later	1,377.9	380.3	340.4				
- four years later	1,408.5	383.5					
- five years later	1,559.3						
Gross paid claims position							
- at end of underwriting year	52.6	31.3	23.8	18.2	27.4	23.1	
- one year later	356.2	137.1	131.4	107.6	115.6		
- two years later	590.2	209.6	190.4	173.0			
- three years later	745.5	259.5	229.0				
- four years later	881.1	291.0					
- five years later	1,142.1						
Gross ultimate claims reserve	417.2	92.5	111.4	144.3	258.8	411.6	1,435.8
Gross unearned claims reserve							(277.9)
Gross claims reserve							**1,157.9**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Whole acount Underwriting year	2010 & Prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	
Net claims							
Estimate of ultimate net claims:							
- at end of underwriting year	975.1	346.7	322.6	313.9	361.1	392.3	
- one year later	1,032.0	332.7	320.9	292.3	342.6		
- two years later	1,011.2	346.7	321.3	289.6			
- three years later	1,013.7	347.8	319.7				
- four years later	1,031.6	347.7					
- five years later	1,086.0						
Net paid claims position							
- at end of underwriting year	46.8	30.7	23.5	17.8	27.4	22.9	
- one year later	311.8	133.3	129.5	106.0	114.9		
- two years later	516.5	202.5	185.5	165.6			
- three years later	627.3	246.3	219.6				
- four years later	713.3	269.4					
- five years later	860.8						
Net ultimate claims reserve	225.2	78.3	100.1	124.0	227.7	369.4	1,124.7
Net unearned claims reserve							(251.0)
Net claims reserve							**873.7**

3.2 Investment risk

During 2015, the syndicate undertook a refresh of its investment strategy, including its investment risk appetite. Key features of this refreshed approach included:

- A whole balance sheet approach to management of Group investments, and the appointment of a single investment manager to facilitate this
- Measurement of risk and return on an economic basis, including the impact of economic variables on both assets and liabilities
- Optimisation of risk and return subject to a risk appetite and practical constraints (such as liquidity requirements)

This updated strategy and approach has sought to eliminate unrewarded investment risks, whilst leaving the overall level of risk exposure broadly stable. This has changed the profile of investment risk in terms of underlying components.

Investment risk is the risk that a firm may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets as a result of market movements. The major investment risks faced by the syndicate arise from interest rate risk, currency risk, equity risk and credit spread risk with reporting and timing risk presented as a result of the difficulties in placing values on less liquid securities. In addition, there is an element of operational risk that arises from the process of investment management.

3.2.1 Investment risk: operational aspects

Investment funds are managed on an economic basis, considering the entire syndicate balance sheet for both assets and liabilities. Investment risk is measured as the volatility of surplus assets over liabilities and the investment strategy targets a risk level of 1.5%. The IC reviews the monitoring of exposures and undertakes stress and scenario testing. Monthly investment returns and asset analyses are reported to the Group Board, the NSL Board and the IC.

The IC has the authority to decide on investment guidelines. While retaining oversight responsibility, the IC delegates day-to-day supervision and transactional execution to appointed investment managers, imposing clear objectives, restrictions and guidelines.

Third party investment manager(s) are appointed after a competitive selection process and must be PRA regulated (or equivalent), be of good standing and regarded as fit for purpose and be compliant with the International Standard on Assurance Engagements ISAE 3402 (or equivalent). Third party manager(s)' investment performance and compliance with service level agreements are reviewed by the IC on both a relative and absolute basis at least annually. The IC meets at least four times a year and is responsible for monitoring investment manager performance and making recommendations where relevant to the Group and NSL Boards.

Surplus cash is managed by the treasury team, which is able to place short-term deposits on a bilateral basis with major clearing banks and invest in approved money market funds.

3.2.2 Investment risk: investment credit risk

Investment credit risk relates to financial assets and cash equivalents. Credit risks associated with insurance and other receivables and reinsurance assets are discussed under "Counterparty credit risk" below.

Investment credit risk is defined as the potential loss in market value resulting from adverse changes in the borrower's ability to repay its debt. The Investment Committee ("IC") is responsible for the development of investment guidelines and monitoring investment manager performance. It has the authority to make decisions on concentration limits of investment managers and of individual investment assets held.

Investment credit risk arises from Novae's investment portfolio which is invested in debt instruments and other debt-like obligations issued by third parties, including governments, supra-national entities, banks and major corporate entities. It is also derived from contractual arrangements between policyholders and intermediaries relating to (re)insurance. There is also credit risk arising from cash and cash equivalents held with financial institutions and on outward reinsurance activities, which is described in the Credit Risk section of these notes.

NSL mitigates investment credit risk by the application of detailed counterparty credit assessments and concentration limits. The syndicate's maximum exposure to counterparty credit risk analysed by credit quality is detailed below.

As at 31 December 2015	AAA	AA	A	BBB	BBB or less	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	-	-	-	-	-	37.5	37.5
Debt securities	308.3	214.2	104.3	115.3	-	74.6	816.7
Overseas deposits as investments	43.8	18.3	7.7	13.7	-	0.1	83.6
Derivative assets	-	-	-	-	-	-	-
Reinsurers' share of claims outstanding	0.2	103.6	112.6	0.7	-	67.2	284.3
Reinsurance debtors	-	1.6	1.8	-	-	0.9	4.3
Cash at bank and in hand	-	-	32.3	-	-	-	32.3
Total credit risk	**352.3**	**337.7**	**258.7**	**129.7**	**-**	**180.3**	**1,258.7**

As at 31 December 2014	AAA	AA	A	BBB	BBB or less	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	-	-	-	-	-	-	-
Debt securities	305.5	246.2	143.8	19.5	10.5	59.5	785.0
Overseas deposits as investments	40.0	16.1	9.5	4.7	-	1.3	71.6
Derivative assets	-	-	-	-	-	(0.3)	(0.3)
Reinsurers' share of claims outstanding	0.2	115.0	201.5	0.6	-	3.9	321.2
Reinsurance debtors	-	-	-	-	-	0.1	0.1
Cash at bank and in hand	-	-	79.5	-	-	-	79.5
Total credit risk	**345.7**	**377.3**	**434.3**	**24.8**	**10.5**	**64.5**	**1,257.1**

The syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The syndicate does not consider these debtors to be impaired on the basis of stage of collection of amounts owed to the syndicate.

The syndicate also has debtors arising from direct insurance operations that are impaired at the reporting date. These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

An analysis of the carrying amounts of past due or impaired debtors is presented in the table below.

As at 31 December 2015	0-3 months	3-6 months	6-12 months	> 1 year	Total
	£m	£m	£m	£m	£m
Reinsurance debtors	3.5	0.2	-	(0.4)	3.2
Insurance debtors	173.5	-	-	1.1	174.6
Other debtors	1.7	-	-	-	1.7
Total credit risk	**178.7**	**0.2**	**-**	**0.7**	**179.5**

As at 31 December 2014	0-3 months	3-6 months	6-12 months	> 1 year	Total
	£m	£m	£m	£m	£m
Reinsurance debtors	4.7	-	-	(0.3)	4.4
Insurance debtors	137.4	-	-	0.1	137.5
Other debtors	0.5	-	-	-	0.5
Total credit risk	**142.6**	**-**	**-**	**(0.2)**	**142.4**

The key aspects of NSL's fixed income investment guidelines that relate specifically to financial asset credit risk are:

- Average credit rating of the portfolio: must be A+ or better
- Corporate securities: not to exceed 50% of the total
- Securities below A- rating: not to exceed 35% of the total, of which BBB- is the minimum
- Securities issued by any one issuer rated A- or above: not to exceed 5% of the total
- Securities issued by any one issuer rated below A-: not to exceed 2% of the total
- Securitised investments: not to exceed 17% of the total and must be rated AA- or better

NOTES TO THE FINANCIAL STATEMENTS (continued)

The fixed income guidelines apply to all elements of the portfolio with the exception of a defined component (currently less than 10%) which is invested in strategic pooled funds. These funds have limited investment permission to invest in equities, emerging market government debt and high yield instruments, which may include sub-investment grade assets.

Monthly investment reports are produced by the third party investment manager showing aggregate credit ratings. Compliance with guidelines, at both portfolio and individual holdings level, is reviewed monthly by the treasury team. Meetings with investment managers are held monthly with the Chief Financial Officer and the Chief Investment Officer. The Investment manager is also required to present formally to the IC each quarter and to the Board annually.

The sole investment manager is also required to present formally to the IC four times a year. Also at least quarterly, the IC reviews the modelled effect of credit failure or downgrade of individual investments or an individual counterparty upon NSL's members' balances.

Cash and cash equivalents (including money market funds), certificates of deposit and floating rate notes are also subject to credit risk. NSL regularly reviews counterparty concentrations.

The table below analyses recurring fair value measurement for financial assets. The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation techniques used. The different levels are defined as follows:

Level 1	Fair values measured using quoted prices (unadjusted) in active markets for identical instruments
Level 2	Fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data
Level 3	Fair values measured using valuation techniques for which all significant inputs are not based on observable market data

31 December 2015	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Shares and other variable yield securities and unit trusts	-	37.4	-	37.4
Debt securities	73.9	736.5	6.3	816.7
Derivative assets	-	-	-	-
Overseas deposits as investments	55.0	28.7	-	83.7
Total financial assets	128.9	802.6	6.3	937.8

31 December 2014	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Shares and other variable yield securities and unit trusts	-	-	-	-
Debt securities	337.9	421.4	25.7	785.0
Derivative assets	(0.3)	-	-	(0.3)
Overseas deposits as investments	60.2	11.4	-	71.6
Total financial assets	397.8	432.8	25.7	856.3

The fair value of the syndicate's financial assets is based on prices provided by our investment manager, who obtains market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets.

3.2.3 Investment risk: interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of a financial instrument will fluctuate due to changes in interest rates. The syndicate's exposure to interest rate risk is spread across Novae's investment portfolio, borrowings, cash and cash equivalents. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Investment Committee monitors the duration of these assets on a regular basis.

Duration is a commonly used measure of interest rate risk and gives an indication of the likely sensitivity of the syndicate's portfolio of fixed income securities to changes in interest rates.

The average duration for investment assets in the syndicate is shown in the following table:

	2015 £m	**2015 Average duration Years**	2014 £m	2014 Average duration Years
Total syndicate financial assets	**970.1**	**2.39**	935.8	1.04

The IC reviews quarterly the modelled effect of interest rate fluctuations on the valuation of the syndicate premiums trust funds and the consequential impact on NSL's members' balances.

An increase of 100 basis points in interest yields, with all other variables constant, would decrease the valuation of the syndicate's investments by an estimated £35.0 million (2014: £12.1 million). This is driven by the change in investment approach, which includes extending average duration from approximately 1 year to approximately 2.4 years.

3.2.4 Investment risk: equity risk

Equity risk is the risk that the value of a financial instrument will fluctuate due to changes in equity markets. The syndicate's exposure to equity risk comes from a holding in a pooled equity fund as part of the Group's diversified investment strategy.

The IC reviews quarterly the modelled effect of equity market fluctuations on the valuation of the Funds at Lloyd's and Syndicate Premiums Trust Funds and the consequential impact on the syndicate's member balances. A maximum exposure to equity is also specified within the investment guidelines.

3.2.5 Investment risk: foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows in the business will fluctuate due to changes in foreign exchange rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The syndicate's exposure to foreign exchange risk is primarily spread across four currencies other than sterling. Net exposures to those currencies are monitored on both an accounting and economic basis. These are managed so as to reduce the impact of foreign exchange rate movements on the business. The management of foreign exchange risk is carried out by the treasury team, with oversight provided by the relevant functional committee.

The requirement in some jurisdictions to fund liabilities gross of reinsurance and in some cases with a margin in addition can constrain the practical ability of NSL to manage net exposures. The territories where this is most likely to arise are Canada and Australia.

In cases where short term factors create a significant mismatch in currencies other than the four material non-sterling transactional currencies, the syndicate will purchase and hold the relevant currency to limit the currency exposure.

The carrying value of total assets and total liabilities categorised by currency is as follows:

At 31 December 2015:

	GBP £m	USD £m	EUR £m	CAD £m	AUD £m	Total £m
Financial investments	346.3	349.8	137.5	61.0	43.2	937.8
Reinsurers' share of technical provisions	151.6	130.5	14.6	18.7	7.3	322.7
Insurance and reinsurance receivables	107.4	196.4	16.5	2.1	11.0	333.4
Cash and cash equivalents	3.3	1.7	9.8	7.5	10.0	32.3
Other assets	81.3	60.7	9.1	2.7	4.6	158.4
Total assets	689.9	739.1	187.5	92.0	76.1	1,784.6
Technical provisions	615.9	677.8	140.7	56.8	76.5	1,567.7
Insurance and reinsurance payables	9.4	40.4	2.2	0.3	1.1	53.4
Other creditors	14.5	1.4	-	-	-	15.9
Total liabilities	639.8	719.6	142.9	57.1	77.6	1,637.0
Net assets	50.1	19.5	44.6	34.9	(1.5)	147.6

At 31 December 2014:

	GBP £m	USD £m	EUR £m	CAD £m	AUD £m	Total £m
Financial investments	361.6	288.1	88.3	89.3	29.0	856.3
Reinsurers' share of technical provisions	180.2	119.3	12.9	25.7	8.7	346.8
Insurance and reinsurance receivables	104.1	132.6	18.8	1.1	11.8	268.4
Cash and cash equivalents	8.7	15.0	6.8	18.6	30.4	79.5
Other assets	82.2	46.2	2.4	0.6	1.5	132.9
Total assets	736.8	601.2	129.2	135.3	81.4	1,683.9
Technical provisions	634.5	565.6	136.2	84.6	79.6	1,500.5
Insurance and reinsurance payables	10.8	27.5	1.1	2.6	0.5	42.5
Other creditors	12.6	1.4	-	-	-	14.0
Total liabilities	657.9	594.5	137.3	87.2	80.1	1,557.0
Net assets	78.9	6.7	(8.1)	48.1	1.3	126.9

If the US dollar, Canadian dollar, Australian dollar and Euro were to weaken against sterling by 10%, with all other variables constant, profit would be lower by an estimated £9.0 million (2014: £5.7 million).

This analysis is based on the current information available and our assumptions in making this assessment are:

- The closing year-end spot rates and average rates throughout the year are 10% higher than opening rates
- There is no active hedging of currency during the year
- The analysis includes an estimate of the impact on foreign borrowings
- The impact of foreign exchange movements on non-monetary items is assumed to be nil

3.2.6 Investment risk: valuation risk

Valuation risk is the risk of deviation in asset values due to the valuation basis used, particularly where it is necessary to use data other than that directly observable from market information.

Non-core risks

Non-core risks are those which Novae does not actively seek in the execution of its strategy, but which arise unavoidably as a consequence of operating in our chosen markets.

3.3 Credit risk

Novae has a neutral appetite towards credit risk. Credit risk is also derived from contractual arrangements between the syndicate and business counterparties, such as reinsurers, financial intermediaries, policyholders and intermediaries relating to (re)insurance.

3.3.1 Credit risk: insurance and other receivables

The syndicate's appetite for credit risk from policyholders and their appointed intermediaries, including insurance business written on a delegated basis, is low. NSL mitigates the effect of credit risk from these sources by applying intermediary credit limits.

Policyholders
Policyholder credit risk is not typically significant, as in the majority of cases a clause in the contract states that a lack of payment by the policyholder will result in policy cancellation. However, where premiums are considered material or originate from a jurisdiction where political risk may affect payment, underwriting staff consider the use of credit checks or premium payment warranties within terms of trade. Policyholder credit risk is monitored by a dedicated credit control team.

Delegated underwriting
Premium credit control is managed by NSL's credit control team, supplemented by additional data and collection services supplied by a specialist outsourced firm. Delegated underwriting premium credit control is managed primarily through underwriting teams, assisted by the delegated underwriting management team. Contractual terms such as policy cancellation are considered and applied as appropriate. Aged premium debt listings and exception analyses are produced against established targets and performance reported regularly to the Finance and Operations ("F&O") Committee and the NSL Board.

Brokers
Intermediary credit risk management is delegated from the Finance and Operations Committee to the Broker Vetting Group ("BVG"). This group determines whether it is appropriate to transact business with all intermediaries and maintains an approved list of intermediaries. Exception reporting is applied to ensure compliance with approved listings in addition to monitoring of excessive or inappropriate terms of trade. The BVG assesses quantitative and qualitative information regarding intermediaries that the syndicate transacts business with and employs a specialist third party insurance services company to assist it in this regard. The BVG is also responsible for monitoring and managing exposures on an ongoing basis.

3.2 Credit risk: reinsurance assets

Reinsurance credit risk management is the responsibility of the Director of Reinsurance, who reports to the Underwriting and Reinsurance Committee ("URC").

Novae has set a risk appetite for the maximum exposure (concentration) limits for all reinsurers, either by financial strength rating category or a specific restricted usage limit in conjunction with in-house credit assessments. The maximum levels for general rating categories are set as a percentage of the Group's shareholders' funds. In some cases usage is acceptable only if collateral in the form of a letter of credit or provision for an outstanding claim advance is in place from inception of the exposure. The syndicate's exposure to reinsurance credit risk is monitored by the Director of Reinsurance and considered in conjunction with individual limits on current business.

Counterparty unwillingness to deliver to contractual requirements also gives rise to credit risk. The Group seeks to mitigate risk from this source by:

a) working to ensure that contractual terms (for instance with reinsurers) are fit for purpose and that full disclosure of relevant information is made; and
b) exerting significant contractual and other credit control measures in pursuit of premium and reinsurance recoverables due.

Reinsurance recoveries on paid claims are monitored by the credit control team. An aged debt report is considered by the F&O Committee on a monthly basis and actively managed accordingly.

Responsibility for setting reinsurer bad debt provisions and monitoring thereon resides with the F&O Committee. At the end of each reporting period, individual reinsurance assets are assessed for any objective evidence of impairment. Such objective evidence may include, but is not limited to, significant financial difficulty of the issuer or obligor, a breach of contract, or adverse changes in the payment status of borrowers in the group. If no objective evidence of impairment exists for a particular RI asset when individually assessed, then the asset is included in a group of similar credit risk characteristics and collectively assessed for impairment. No general bad debt provision is applied.

The provisioning rates are reviewed periodically by the F&O Committee and the rates set are applied to the reinsurance recoverable total outstanding at the end of each quarter.

3.4 Liquidity risk

Liquidity risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Liquidity constraints emerge either as a result of an absolute shortfall of resources per se or as a result of a lack of marketability of investment or other assets. Specifically, liquidity risk exists to the extent that the syndicate is required to satisfy claims costs, fulfil regulatory solvency and funding requirements and meet working capital needs. The effects of catastrophic underwriting loss on the syndicate's liquidity, including the effects of overseas regulatory funding requirements, are modelled and reviewed on a monthly basis.

The principal mitigation techniques applied to manage liquidity risk are appropriate asset/liability and liquidity monitoring.

In the review of the Group's investment strategy, the liquidity of the new strategy was modelled. This modelling shows that under conservative assumptions c.50% of the portfolio could be liquidated within 1 week, c.80% within 3 months and entire investment portfolio within 6 months.

This is illustrated by the following summary which shows the cash flows in the syndicate.

At 31 December 2015:

	0-1 year £m	1-3 years £m	3-5 years £m	> 5 years £m	Total £m
Debt securities and other fixed income securities	92.6	362.9	262.1	65.6	783.2
Derivative assets	-	-	-	-	-
UK equity fund & Emerging market fund	70.9	-	-	-	70.9
Overseas deposits as investments	32.1	40.3	9.9	1.4	83.7
Cash at bank and in hand	32.3	-	-	-	32.3
Total financial assets	227.9	403.2	272.0	67.0	970.1
Technical provisions	533.0	564.4	235.1	235.1	1,567.6
Creditors	66.6	0.9	-	-	67.5
Total liabilities	599.6	565.3	235.1	235.1	1635.1

At 31 December 2014:

	0-1 year £m	1-3 years £m	3-5 years £m	> 5 years £m	Total £m
Debt securities and other fixed income securities	266.4	394.5	85.2	38.9	785.0
Derivative assets	(0.3)	-	-	-	(0.3)
UK equity fund & Emerging market fund	-	-	-	-	-
Overseas deposits as investments	35.3	27.1	7.4	1.8	71.6
Cash at bank and in hand	79.5	-	-	-	79.5
Total financial assets	380.9	421.6	92.6	40.7	935.8
Technical provisions	510.2	525.2	225.1	240.1	1,500.6
Creditors	53.4	0.4	-	-	53.8
Total liabilities	563.6	525.6	225.1	240.1	1,554.4

NOTES TO THE FINANCIAL STATEMENTS (continued)

3.5 Operational risk

Novae has a negative appetite towards operational risk, seeking to reduce exposures subject to cost and operational considerations. Novae recognises that operational risks arise in all business systems and processes, and to eliminate these risks entirely would entail excessive costs. Novae has developed an operational control system that covers all material business processes, and serves to keep the likelihood and impact of operational failures within acceptable bounds.

The Risk Committee has delegated the management of regulatory and operational risk to the relevant functional committees. NSL has identified five major risks categorised as regulatory or operational and applies key mitigating factors in the management of them.

3.5.1 Operational risk: regulatory and legal risk

NSL is required to discharge its regulatory and non-insurance legal obligations and failure to do so could give rise to risk that the syndicate might have to curtail significantly its business operations and/or face fines or penalties.

Sources of this risk would include:

- The PRA, FCA, Lloyd's and other overseas regulators jurisdiction over certain subsidiaries of the Novae Group, or of the Novae Group itself as controller
- Data protection regulations and adherence with requirements of the Data Protection Act
- Compliance with Money Laundering Regulations, Proceeds of Crime Act, Serious Organised Crime and Police Act and more recently the Bribery Act
- Amendment to employment law under contract or statutory provision

To mitigate this risk NSL maintains continuous dialogue with regulators and monitors regulatory and legislative developments.

During 2015 the Lloyd's market received regulatory guidance on "conduct risk" – the risk of unfair outcomes for customers in their interactions with Novae. This included the launch of Lloyd's Minimum Standards on Conduct Risk, reflecting the Financial Conduct Authority's expectations of the market.

In response to this, Novae has made substantial investment in Conduct compliance. We assessed our insurance product offerings to determine the conduct risk they posed, reviewed existing policies and procedures to ensure they supported the delivery of fair treatment for customers and recruited a dedicated Conduct Risk Manager to take on a first line of defence role with respect to managing our conduct risk exposure. The Conduct Risk Manager's responsibilities include oversight of conduct risk including monitoring their ongoing effectiveness, the compilation, analysis and onward reporting of conduct risk MI, and, where appropriate, the escalation of issues to the Product Oversight Group, the Executive Committee and the Board. The Conduct Risk Manager also supports the Product Oversight Group in the execution of its key role in reviewing and approving products and analysis of Conduct Risk MI.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3.5.2 Operational risk: business continuity

Novae has an established Business Continuity Plan (“BC Plan”) which seeks to address and mitigate the impact of material operational failure on Novae’s business. The BC Plan is designed to provide sufficient flexibility to respond to a variety of events and requires essential services to be restored within 48 hours and a near normal service to be available within one week. The BC Plan is reviewed once every two years by a third party business continuity adviser. The plan is tested at least annually by senior business continuity team members. The effectiveness of the BC Plan is challenged internally by the use of evacuation, communications, IT recovery and business scenario tests. Novae’s business continuity staff also engage in wider market and financial services tests on a regular basis.

3.5.3 Operational risk: key staff risk

Novae is dependent on key employees, both directly within its underwriting business and to fulfil the wider operational, regulatory, financial and compliance functions. There is little desire to carry material risk arising from the loss of any one person for whatever reason. Novae may however be exposed to the loss or actions of a key individual or groups of individuals which may impact upon its ability to operate, at least in the short term.

In mitigation, Novae maintains, reviews and monitors a full succession plan to seek to ensure that Novae does not become over reliant on one single employee or team of employees. Novae looks to adopt appropriate employment contracts and compensation policy. It encourages share ownership by key employees. Novae monitors staff turnover rates and reports this to the Group Board monthly. Remuneration policy is in line with business and risk strategy and policy.

3.5.4 Operational risk: outsourcing risk

Novae aims to outsource only where there is a clear benefit, either because Novae does not have the resources, or could not get such resources, where the cost of outsourcing is considerably less than retaining the function in-house, or where the perceived relevance of the work is of a temporary nature and to retain the work would require hiring staff only to have to make them redundant at a future date.

Outsourcing risk can arise from both the transaction of insurance business under delegated underwriting authority and other non-underwriting outsourcing arrangements. Risk can arise from third parties not complying with specified procedures or requirements, including poor regulatory and legal oversight. NSL looks to mitigate outsourcing risk by central review, control monitoring of contracts and by the imposition of contractual service level agreements specifying key performance and risk indicators where appropriate.

3.5.5 Operational risk: failure of project or change management

The delivery failure of projects or change management can have significant implications for the business in terms of opportunity costs and mis-allocated resources.
This risk is mitigated by a robust project governance process, overseen by the relevant functional committee with specific involvement from the Risk Management and Internal Audit functions where appropriate.

3.6 Strategic risk

Novae is committed to producing returns in excess of 10 per cent above the risk free rate across the insurance cycle, delivered through a combination of expert underwriting, consistent performance and dynamic capital management.

3.6.1 Strategic risk: failure of Group strategy

The Executive Management have prepared a strategic plan which has been approved by the Novae Group Board. There is risk that this strategy is not clearly communicated externally or internally, or not aligned to the ongoing management of the business. In mitigation, the strategy is annually reviewed, tested and refined before being communicated to management and stakeholders. Strategic opportunities and the annual and longer term business plans are referenced against Novae's strategy to ensure consistency and adherence.

3.6.2 Strategic risk: reputational risk

Risk to reputation of the business can arise across the business, from both underwriting and non-underwriting sources. The Novae Group Chief Executive Officer holds primary responsibility for the establishment and maintenance of policy relating to interacting with the media, shareholders, regulators and other stakeholders. External communication, particularly with the media, is appropriately controlled.

3.7 Capital risk

Maintaining a strong capital base is integral to Novae's strategy, and underpins Novae's Risk Appetite Framework.

Aside from the impact of the risks discussed above on the syndicate's capital position, Capital risk can arise from two primary reasons:

- Capital resources might be inadequate to support regulatory capital requirements of historic, current or future business plans; or
- Insufficient capital might be available to support increased requirements arising out of regulatory change or intervention

The second of these includes specific risks relating to the implementation of the Solvency II regime (in force as of 1 January 2016). The principal mitigation techniques applied to manage capital risk are the setting and monitoring of appropriate capital buffers.

The Corporation of Lloyd's determines the amount of capital required at the market level to meet the market's commercial objectives and in particular to sustain the market's financial strength rating at the target level. This capital requirement is met from the aggregate of central resources – the Lloyd's Central Fund plus reinsurances – and capital provided by underwriting members, who are required to deposit assets at Lloyd's equal to the member's Economic Capital Assessment ("ECA"). As in prior years, this is based on the Solvency II capital calculation.

The member assets deposited at Lloyd's are held in trust and are known as Funds at Lloyd's ("FAL"). Please refer to note 23 for further disclosure on the level of FAL deposited at the end of the reporting year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3.7.1 Capital risk: adequate capital to support regulatory business plan

The regulatory capital requirement in relation to the Novae Group's participation on syndicate 2007 is subject to several of factors. Some are under the Group and NSL's control, such as the premium volume and lines of business transacted, and some are outside the Group and NSL's control, for instance changes in foreign exchange rates, interest rates or insurance market conditions. In addition, the available resources at each point in the future will depend upon the profits and losses made up to that time.

The risk of a shortfall in capital resources against regulatory requirements is mitigated through the combination of a number of activities:

- The retention of a capital surplus, in excess of the current syndicate regulatory capital requirement (effectively Novae's share of the Lloyd's ECA for Syndicate 2007 as the operational capital requirements for other group entities are relatively immaterial. This provides both a buffer against adverse experience and the flexibility to expand underwriting should incremental opportunities present themselves
- The maintenance of a diverse capital base including bank and third party reinsurance support, which provides a range of options should additional capital be required
- Matching the capital supporting the ECA, as far as is practicable, by currency and by duration, to reduce the impact of movements in financial market variables on the capital position
- The use of medium term forecasting models to estimate the future capital requirements under a number of scenarios to facilitate contingency planning

3.7.2 Capital risk: changes in capital requirements as a result of regulatory change or intervention

The uSCR is prepared using NSL's Internal Model, which uses stochastic modelling techniques, supplemented by scenario testing, under the control of the Group Actuary. The resultant uSCR is submitted to Lloyd's for review, together with the annual business plan. Lloyd's and the PRA have the power to apply balancing charges to an individual syndicate's calculated capital requirement if they believe the capital is inadequate or to ensure that the Society as a whole is adequately capitalised. There is a risk therefore that inadequate modelling techniques could underestimate the capital requirement, leading to an uplift impacting on the Group's ability to provide capital to support its projected plan.

Two principal sets of actions are undertaken in mitigation of this risk:

- Significant effort is made throughout the process of model development and SCR calculation to test and validate the model and the parameters used, including an independent validation exercise. This is achieved both through the involvement of experts from relevant areas of the business in setting parameters and refining the model, and through the review of the model and SCR by the Model Technical Assurance Group and ultimately the NSL Board.
- Close relationships are maintained with Lloyd's so as to enable Novae to be aware of, and make early allowance for, any issues that develop at the market level and are likely to be the subject of focus in the Lloyd's review process. Such close contacts are maintained by the Actuarial, Risk and Compliance functions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Lloyd's Internal Model received approval from the PRA in late 2015, removing a potentially large source of regulatory risk to the Group's capital charge. The Novae Internal Model continues to be authorised by Lloyd's. It should be noted, however, that Solvency II is still relatively new in its implementation, and there remains the risk that regulatory actions will adversely affect Novae's capital requirements in the future.

The Chief Risk Officer is responsible for managing the risk of Novae failing to get approval for use of its Internal Model and reports on a regular basis to the Risk Committee and the NSL Board. NSL seeks to mitigate, so far as it can, the risks arising from Solvency II by monitoring regulatory developments, significantly investing in appropriate resource and by maintaining an ongoing and open dialogue with regulators and other stakeholders.

3.8 Enterprise risk

NSL manages risk within the categories discussed above. However, under certain conditions, the outcome with respect to one risk category can be expected to influence another. The internal model makes allowance for interactions and dependencies between risk types, including allowance for increased interaction at times of stress. Validation and analysis of this output allows Novae to understand the potential for severe events impacting across the enterprise.

Losses associated with one or more enterprise risks are also considered through the use of stress and scenario testing. Stress and scenario testing is performed throughout Novae and reported to the relevant sub-committee and to the Risk Committee. The results of testing are reviewed to conclude whether the potential impact is in line with expectations and risk appetite, taking into account the assumed probability and severity of the scenario. These have been used to validate the appropriateness of internal model output, and are not believed to indicate any material shortcomings in the current assessment of risk profile.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Segmental analysis

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

2015	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Result before investment return £'000
Direct insurance:						
Marine, aviation and transport	106,895	114,308	(59,797)	(39,635)	(5,066)	9,810
Fire and other damage	243,778	218,455	(97,560)	(88,676)	(17,895)	14,324
Third party liability	162,144	149,223	(81,061)	(45,979)	(5,672)	16,511
Motor (other classes)	8,307	11,388	(10,170)	(4,490)	2,123	(1,149)
Credit and suretyship	72,976	57,644	(26,231)	(20,914)	(7,945)	2,554
Miscellaneous	6,404	4,885	(2,666)	(2,006)	(779)	(566)
Direct insurances	600,504	555,903	(277,485)	(201,700)	(35,234)	41,484
Reinsurance acceptances	188,834	171,203	(54,090)	(53,271)	(33,085)	30,757
Total	789,338	727,106	(331,575)	(254,971)	(68,319)	72,241

2014	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	**Result before investment return £'000**
Direct insurance:						
Marine, aviation and transport	59,737	51,894	(24,074)	(17,122)	103	**10,801**
Fire and other damage	130,881	122,981	(46,802)	(50,728)	(9,883)	**15,568**
Third party liability	122,433	117,267	(63,834)	(43,105)	(2,282)	**8,046**
Motor (other classes)	15,713	15,852	(11,733)	(5,545)	(766)	**(2,192)**
Credit and suretyship	36,244	36,460	(15,885)	(11,223)	(461)	**8,891**
Miscellaneous	2,646	3,558	(1,718)	(1,514)	(164)	**162**
Direct insurances	367,654	348,012	(164,046)	(129,237)	(13,453)	**41,276**
Reinsurance acceptances	291,759	256,488	(123,440)	(79,426)	(27,265)	**26,357**
Total	659,413	604,500	(287,486)	(208,663)	(40,718)	**67,633**

The analyses in the tables above have been prepared in accordance with the requirements of Schedule 3 of *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008: Insurance Companies* and do not necessarily reflect how the Board of NSL presents and uses information in its management of the syndicate.

Geographical origin of direct insurance gross premiums written

An analysis of gross direct premiums written by reference to the location of the risk is provided below:

	2015 £'000	2014 £'000
Risks located in UK	**154,892**	109,556
Risks located in other member states of the EU	**20,965**	20,069
Risks located in US	**82,533**	38,225
Risks located in other countries	**342,114**	199,804
	600,504	367,654

5 Technical provisions

	2015			2014		
	Gross provisions £'000	**Reinsurance assets £'000**	**Net provisions £'000**	Gross provisions £'000	Reinsurance assets £'000	Net provisions £'000
Claims outstanding						
Balance at 1 January	**1,162,555**	**(321,238)**	**841,317**	1,170,467	(328,660)	841,807
Change in claims outstanding	**(12,348)**	**39,235**	**26,887**	(20,454)	12,034	(8,420)
Effect of movements in exchange rates	**7,708**	**(2,260)**	**5,448**	12,542	(4,612)	7,930
Balance at 31 December	**1,157,915**	**(284,263)**	**873,652**	1,162,555	(321,238)	841,317
Consisting of:						
Claims notified	**671,927**	**(194,154)**	**477,773**	664,974	(210,544)	454,430
Claims incurred but not reported	**485,988**	**(90,109)**	**395,879**	497,581	(110,694)	386,887
Balance at 31 December	**1,157,915**	**(284,263)**	**873,652**	1,162,555	(321,238)	841,317
Unearned premiums						
Balance at 1 January	**338,054**	**(25,522)**	**312,532**	275,905	(22,385)	253,520
Change in unearned premiums	**62,232**	**(11,680)**	**50,552**	54,914	(2,412)	52,502
Effect of movements in exchange rates	**9,443**	**(1,244)**	**8,199**	7,235	(725)	6,510
Balance at 31 December	**409,729**	**(38,446)**	**371,283**	338,054	(25,522)	312,532

The gross and net provisions at 31 December 2015 include margin held above actuarial best estimate of £41.6 million (2014: gross and net provisions included margin of £40.1 million). No margin was held in the reinsurance assets.

6 Net claims incurred in the calendar year and reserve movements on prior years

Claims incurred, net of reinsurance, totalled £308.2 million during the calendar year (2014: £257.2 million). This includes an amount of £33.6 million in respect of increases to reserves on 2013 and prior underwriting years (2014: £26.8 million in respect of reserve releases from 2012 and prior underwriting years).

7 Net operating expenses

	2015 **£'000**	2014 £'000
Brokerage and commissions	**196,263**	161,237
Change in deferred acquisition costs	**(22,071)**	(20,850)
Administrative expenses	**70,446**	60,026
Personal expenses	**9,960**	7,956
Profit commission payable	**373**	293
	254,971	208,662

Average commission rates for direct insurance, as a proportion of gross premiums written in the year, amounted to 27.0% (2014: 26.8%).

During 2015 the Company appointed PricewaterhouseCoopers LLP ("PwC") as auditor in place of KPMG. The figures for auditor's remuneration for the audit of the syndicate shown below relate to PwC for 2015 and KPMG for 2014.

Administrative expenses include:

	2015 **£'000**	2014 £'000
Fees payable to the syndicate's auditor for the audit of the syndicate	**270**	225
Fees payable to the syndicate's auditor for other services:		
Actuarial review	**-**	165
	270	390

8 Staff numbers and costs

All staff were employed by Novae Management Limited, a wholly owned subsidiary of Novae Group plc (the ultimate parent company of the managing agent). The following amounts were incurred by the syndicate in respect of staff costs.

	2015 £'000	2014 £'000
Wages and salaries	**25,631**	22,686
Profit-related remuneration	**13,383**	10,643
Social security costs	**2,961**	2,493
Pension costs	**3,166**	3,796
Other	**2,729**	2,130
	47,870	41,748

The average number of employees working for the syndicate during the year was as follows:

	2015 Number	2014 Number
Support	**149**	128
Underwriting	**116**	99
Claims and reinsurance	**53**	50
	318	277

9 Directors' emoluments

The directors of Novae Syndicates Limited received the following remuneration charged to the syndicate and included within net operating expenses:

	2015 £'000	2014 £'000
Wages and salaries	**1,317**	1,632
Post-employment benefits	**182**	316
Other benefits	**18**	32
	1,517	1,980

Director's bonuses and other variable incentives are not included within the emoluments above as these are borne by NCUL.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The highest paid director received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2015 £'000	2014 £'000
Wages and salaries	**270**	240
Post-employment benefits	**53**	47
Other benefits	**3**	3
	326	290

No other compensation was payable to key management personnel.

10 Active Underwriter's emoluments

The Active Underwriter received the following remuneration charged to the syndicate and included within net operating expenses:

	2015 £'000	2014 £'000
Wages and salaries	**225**	414
Post-employment benefits	**40**	74
Other benefits	**4**	9
	269	497

The reduction in 2015 reflects I Burford being appointed as the sole Active Underwriter. In 2014, I Burford and R D Foster were Joint Active Underwriters. The Active Underwriter's bonus and other variable incentives are not included within the emoluments above as these are borne by NCUL.

11 Investment income

	2015 £'000	2014 £'000
Income from investments	**13,772**	13,925
Gains on the realisation of investments	**3,428**	2,311
	17,200	16,236

	2015 '000	2014 '000
Average syndicate funds available for investment during the year (original currency):		
Sterling (including converted minor currencies)	**341,239**	350,875
Australian dollar	**107,407**	107,346
Euro	**161,643**	113,312
US dollar	**491,796**	478,868
Canadian dollar	**171,312**	166,404
Combined sterling	**920,310**	882,568
Aggregate investment return for the calendar year	**4,818**	11,102

The Australian dollar, Euro, US dollar and Canadian dollar figures above are in original currency.

	2015	2014
Calendar year investment yield:		
Sterling (including converted minor currencies)	**0.0%**	1.4%
Australian dollar	**2.6%**	4.0%
Euro	**0.8%**	0.8%
US dollar	**0.4%**	0.6%
Canadian dollar	**1.2%**	1.4%
Combined sterling	**0.5%**	1.3%

The average amount of syndicate funds available for investment has been calculated as the monthly average balance of financial investments and cash at bank and in hand.

12 Investment expenses and charges

	2015 £'000	2014 £'000
Investment management expenses	**944**	1,314
Losses on realisation of investments	**6,258**	3,473
	7,202	4,787

13 Financial investments

	Market value		Cost	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Other shares and variable yield securities	**37,458**	-	**39,424**	-
Debt securities and other fixed income securities	**816,698**	785,018	**816,074**	784,063
Overseas deposits	**83,691**	71,620	**83,691**	71,620
Other investments	**-**	(329)	**-**	(329)
	937,847	856,309	**939,189**	855,354

Overseas deposits is comprised of £47.7m of government bonds, £19.6m of corporate bonds, £1.2m of collateralised securities and £15.2m of cash and deposits.

14 Debtors arising out of direct insurance operations

	2015 £'000	2014 £'000
Amounts due from intermediaries:		
Due within one year	**174,375**	137,396
Due after one year	**225**	125
	174,600	137,521

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Debtors arising out of reinsurance operations

	2015 £'000	2014 £'000
Due within one year	**158,684**	130,965
Due after one year	**65**	17
	158,749	130,982

16 Other debtors

	2015 £'000	2014 £'000
Amounts due from Novae group companies	**1,491**	447
Other	**195**	46
	1,686	493

All are due within one year (2014: all due within one year)

17 Other assets – other

	2015 £'000	2014 £'000
Collateralised letter of credit	**1,839**	2,085

The collateral letter of credit relates to a facility held in respect of a single Lloyd's policy.

18 Reconciliation of members' balances

	2015 £'000	2014 £'000
Total recognised gains since last annual report	**74,709**	77,630
Transfers to members' personal reserve funds	**(53,944)**	(38,021)
Members' balances brought forward at 1 January	**126,887**	87,278
Members' balances carried forward at 31 December	**147,652**	126,887

Each member participates on a syndicate by reference to individual years of account and its ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account. Transfers to members' personal reserve funds include foreign exchange movements on balances due (to) / from members.

19 Creditors arising out of direct insurance operations

	2015 £'000	2014 £'000
Amounts due from intermediaries:		
Due within one year	**24,218**	20,122
Due after one year	**141**	41
	24,359	20,163

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Creditors arising out of reinsurance operations

	2015 £'000	2014 £'000
Due within one year	**29,021**	22,313
Due after one year	**-**	6
	29,021	22,319

21 Other creditors

	2015 £'000	2014 £'000
Amounts due to Novae group companies	**14,126**	11,341

All creditors are due within one year (2014: all due within one year)

22 Cash and cash equivalents

	2015 £'000	2014 £'000
Cash at bank and in hand	**32,257**	79,457
Deposits with credit institutions	**89,065**	19,055
Total cash and cash equivalents	**121,322**	98,512

Only deposits with credit institutions with maturities of three months or less that are used by the syndicate in the management of its short-term commitments are included in cash and cash equivalents.

Cash at bank and in hand includes £1.9m held in regulated trust funds (2014: £25.3m). Deposits with credit institutions include £18.9m of restricted cash and cash equivalents (2014: £5.6m).

23 Deferred acquisition costs

	2015 £'000	2014 £'000
Balance at beginning of the year	**114,601**	92,052
Utilisation of balance brought forward	**(91,378)**	(73,408)
Additional amounts deferred in year	**115,585**	95,957
Balance at end of the year	**138,808**	114,601

24 Related parties

Directors' interests in other Novae group companies

The ultimate parent company of NSL is Novae Group plc. Consolidated accounts for Novae Group plc are available from the Company Secretary at 21 Lombard Street, London EC3V 9AH. The immediate holding company of NSL is Novae Holdings Limited, which also owns Novae Corporate Underwriting Limited, a corporate member of Lloyd's and the principal capital provider to Syndicate 2007.

Details of NSL directors, who were also directors of other relevant Novae companies at any time between 1 January 2013 and 31 December 2015, are shown below:

Novae Group plc

J R Adams	resigned 31 December 2014
L P Adams	resigned 31 December 2015
Sir Bryan Carsberg	resigned 31 December 2015
R D C Henderson	resigned 31 December 2015
M C Phibbs	resigned 31 December 2015
D J Pye	

Novae Corporate Underwriting Limited

J R Adams	resigned 23 March 2015
M A Hudson	resigned 31 December 2014
C L Murray	resigned 31 December 2013
S J Heming	

Novae Underwriting Limited

J R Adams	resigned 30 April 2015
J L J Butcher	appointed 23 June 2015
M A Hudson	
M Metcalfe	resigned 1 May 2012
C L Murray	appointed 23 July 2012, resigned 31 December 2013
S J Heming	

The interests of current NSL directors and persons connected with them in the share capital of Novae Group plc as at 31 December 2015 amounted to 1.0% of the share capital of that company.

(b) Directors' interests in related party transactions

Jonathan Butcher is connected to Henrietta Butcher, a director and shareholder of Tyser & Co. Limited ("Tyser"). Tyser act as a broker placing (re)insurance business on an arm's length basis with Syndicate 2007. During the period under review, Tyser introduced £15.6m of business to Syndicate 2007 (2014: £14.7m).

D J Pye is a non-executive director of Independent Services Group Limited and its subsidiary Independent Broking Solutions Limited, which places business in Lloyd's for a number of appointed representatives. The cover is provided on normal commercial terms and on an arm's length basis. The risks placed with Syndicate 2007 in 2015 totalled £95,421 (2014: £277,889).

NOTES TO THE FINANCIAL STATEMENTS (continued)

R D C Henderson is a director of Majedie Investment Trust plc which purchased insurances that are partially underwritten by Syndicate 2007. The cover is provided on normal commercial terms and on an arm's length basis. The premium paid to Syndicate 2007 in 2015 totalled £16,346 (2014: £16,081).

M C Phibbs is a director of Morgan Stanley & Co International plc. A company within the Morgan Stanley group purchased insurances that are partially underwritten by Syndicate 2007. The cover is provided on normal commercial terms and on an arm's length basis. The premium paid to Syndicate 2007 in 2015 totalled £356,620 (2014: £60,148).

(c) Other related party transactions

Details shown below relate to transactions concerning the relevant years of account for the syndicate during the period(s) under review:

(i) Novae Underwriting Limited

Novae Underwriting Limited ("NUL") is a Lloyd's service company. It has been granted consent by Lloyd's under the Related Parties Byelaw (No. 2 of 1986) to act as a coverholder for Lloyd's managed syndicates and is authorised and regulated by the Financial Conduct Authority.

NUL is a subsidiary of Novae Group plc ("the Group"). During the period it serviced business arising from certain underwriting units within the Group. A principal source of income of NUL was from credit scoring fees arising from the Group's UK trade credit business, "CIFS". On 1 January 2013, the Group sold its operational interest in CIFS to a third party and as a result this source of income was not received in 2013.

For the relevant periods under review NUL placed the following premiums with Syndicate 2007:

	£m
2015 Calendar Year	56.8
2013 Year of Account	95.6

At 31 December 2015, an aggregate amount of £8.3 million was payable from NUL (2014: £10.2 million). This balance relates to timing differences arising from the processing of premiums and claims. Balances will vary on a monthly basis in line with outstanding transaction volumes.

ii) Novae Corporate Underwriting Limited

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

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

Novae Corporate Underwriting Limited provided 96.85% of the capacity on Syndicate 2007 for the 2013 and 2014 years of account, with the balance being provided by two direct corporate member participants on a limited tenure basis. Novae Group plc ("Novae") will provide the whole of the capacity on Syndicate 2007 for the 2015 and 2016 underwriting years through its own corporate member, Novae Corporate Underwriting Limited ("NCUL").

iii) Novae Management Limited

Novae Management Limited ("NML") is a wholly owned subsidiary of Novae Group plc and acts as a management company.

Expenses of £58.2 million (2014: £48.3 million) were recharged to and retained by Syndicate 2007 from NML during the year. At 31 December 2015, an amount of £1.5 million (2014: £0.1 million receivable) was receivable from NML. There were no other transactions or arrangements involving the managing agent or any of its directors or executives that require disclosure under the provision of Schedule 4, Paragraph 42 of the Syndicate Accounting Byelaw (No. 18 of 1994) as amended.

25 Foreign exchange rates

The following currency exchange rates have been used for principal foreign currency transactions

	2015 Year-end rate	**2015 Average rate**	2014 Year-end rate	2014 Average rate
Australian dollar	**2.03**	**2.04**	1.91	1.83
Canadian dollar	**2.05**	**1.95**	1.81	1.82
Euro	**1.36**	**1.38**	1.29	1.24
US dollar	**1.47**	**1.53**	1.56	1.65

26 Post balance sheet events

The following amounts are proposed to be transferred to members' personal reserve funds. The figures stated are before members' charges.

	2015 £'000	2014 £'000
2013 closing year of account	**90,319**	-
2012 closing year of account	**-**	54,445
	90,319	54,445

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 Transition from UK GAAP to FRS 102 and FRS 103

From 1 January 2015, NSL transitioned to accounting policies aligned to FRS 102 and FRS 103 from the previous UK GAAP. The main changes are in relation to foreign exchange and investments. These changes are explained in more detail below.

(i) Accounting for foreign currency

FRS 102 requires all foreign currency transactions to be revalued into the functional currency at the transactional rate of exchange. At the period end, the monetary foreign currency items must be translated at the closing rate with any difference being allocated to the profit and loss account. Previously such differences were booked through the STRGL under UK GAAP. Under FRS 102 these differences shall be recognised in the statement of comprehensive income. At 31 December 2014, an £8.2m loss on exchange was booked through the technical account. In line with FRS 102, this has now been transferred to the non-technical account, increasing the balance on the brought forward technical account from £70.6m to £78.7m.

Under old UK GAAP, both DAC and UPR were treated as non-monetary items. The syndicate previously applied SSAP 20, which is electing to treat foreign currency ledgers as branches (or foreign operations). DAC & UPR would have been translated at the closing rate. Any resulting gain or loss would have been recognised in the statement of recognised gains and losses and not in profit or loss. Under FRS 102 and FRS 103, DAC and UPR are treated as if they are monetary assets and liabilities and are translated to the functional currency using the closing rate. Any resulting foreign exchange gain or loss are recognised in profit or loss.

The effect of the transition to FRS 102 and 103, given the syndicate's prior approach, is that the foreign exchange gain or loss previously recognised in the statement of recognised gains and losses for the year ended 31 December 2014 is now recognised in profit or loss . There is no adjustment to Members' Balances at 1 January 2014 or 31 December 2014.

(ii) Financial instruments disclosures

FRS 102 requires the syndicate to make additional disclosures in respect of financial instruments held. The standard requires disclosure of information that enables users of the syndicate's financial statements to evaluate the nature and extent of relevant risks arising from financial instruments to which the entity is exposed at the end of the reporting period. These risks include credit risk, liquidity risk and market risk. These additional disclosures are detailed within the managing agent's report.

There is also a requirement for the syndicate to disclose fair value hierarchy levels. The credit risk section of note 3 includes a table which analyses recurring fair value measurement for financial assets. The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation techniques used.

(iii) Claims development triangles

FRS 103 includes an additional requirement to show information on claims development. An additional disclosure has been made for this within the insurance risk section of the managing agent's report.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(iv) Financial statements

Under FRS 102 the syndicate has the option to adopt a two statement approach which includes an income statement and a statement of consolidated income, which replaces the previous statement of total recognised gains and losses. However, there were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the statement of profit or loss, therefore under FRS102 3.19 we have chosen to present only an income statement in these financial statements.

In addition to this the syndicate now provides a statement of changes in members' balances. The financial performance of the syndicate has not been affected by the change in the financial reporting framework.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value and are used by the syndicate in the management of its short-term commitments. At 31 December 2015 £121.3m of cash and cash equivalents have been recognised in the statement of cash flows (2014: £98.5 million). Refer to note 22 for further detail.

(vi) Statement of cash flows

The syndicate's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under old UK GAAP. In addition, the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas previously cash was defined as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The previous definition was more restrictive.

2013 CLOSED YEAR OF ACCOUNT – UNDERWRITING YEAR ACCOUNTS

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts for each syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December. In accordance with UK accounting standards, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). The syndicate underwriting year accounts are required by law to give a true and fair view of the result of the closed year of account.

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

(a) select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;

(b) take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;

(c) make judgements and estimates that are reasonable and prudent;

(d) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Lloyd's Regulations. It also has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the syndicate and to prevent and detect fraud or any other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2007
2013 CLOSED YEAR OF ACCOUNT

Report on the syndicate underwriting year accounts

Our Opinion
In our opinion, Syndicates 2007's syndicate underwriting year accounts for the 2013 year of account for the 3 years ended 31 December 2015 (the "syndicate underwriting year accounts"):

- give a true and fair view of the state of the syndicate's profit for the 2013 closed year of account; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

What we have audited
The syndicate underwriting year accounts, included within Syndicate 2007 Report & Accounts (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015
- the Profit and Loss account for the 3 years then ended;
- [the statement of cash flows for the 3 years then ended, and
- the notes to the syndicate underwriting year accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate underwriting year accounts is applicable law and United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception
Under the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) we are required to report to you if, in our opinion:

- the Managing Agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate underwriting year accounts and the audit

Our responsibilities and those of the Managing Agent
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 65, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the financial reporting framework described above and for

being satisfied that they give a true and fair view of the result for the 2013 closed year of account.

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate underwriting year accounts involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate underwriting year accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating disclosures in the syndicate underwriting year accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate underwriting year accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Nick Wilks (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2016

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT

For the 36 months ended 31 December 2015

	Notes	£'000	2013 year of account £'000
Syndicate allocated capacity			**575,000**
Earned premiums, net of reinsurance			
Gross premiums written and earned	6	609,585	
Outward reinsurance premiums written and earned		(59,364)	
			550,221
Reinsurance to close premiums received, net of reinsurance			548,324
Allocated investment return transferred from the non-technical account			5,640
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(340,732)	
Reinsurers' share		63,409	
Reinsurance to close premium payable, net of reinsurance	4	(530,457)	
			(807,780)
Net operating expenses	7		(202,421)
Balance on the technical account			**93,984**

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

For the 36 months ended 31 December 2015

	Notes	2013 year of account £'000
Balance on the technical account		**93,984**
Investment income		10,851
Unrealised gains on investments		2,010
Investment expenses and charges		(696)
Unrealised losses on investments		(6,524)
Allocated investment return transferred to the technical account		(5,640)
Loss on exchange		(3,666)
Profit for the 2013 closing year of account	10	**90,319**

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

All results for the closed year relate to continuing activities.

The notes on pages 71 to 78 form part of these financial statements.

BALANCE SHEET

As at 31 December 2015

	Notes	2013 year of account £'000
Assets		
Investments	**7**	578,766
Debtors	**8**	37,982
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	**3**	237,806
Cash at bank and in hand		9,369
Other assets		1,839
Accrued interest		3,839
Prepayments and other accrued income		228
Total assets		**869,829**
Liabilities		
Amounts due to members	**9**	88,831
Reinsurance premium payable to close the account – gross amount	**3**	765,373
Creditors	**10**	15,625
Accruals and deferred income		-
Total liabilities		**869,829**

The syndicate underwriting year accounts were approved by the Board of Novae Syndicates Limited on 15 March 2016 and were signed on its behalf by:

M A Hudson
Director

The notes on pages 71 to 78 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the 36 months ended 31 December 2015

	Notes	2013 year of account £'000
Reconciliation of closing year result to net cash inflow from the operations of the closing year		
Profit for the closing year of account on ordinary activities		**90,319**
Increase in reinsurance to close		**527,566**
(Increase) in debtors		**(43,887)**
Increase in creditors		**15,625**
Net cash inflow from operating activities		**589,623**
Transfer from members' personal reserve funds		**(1,488)**
Net cash inflow	**14**	**588,135**
Cash flows were invested as follows:		
Increase in cash and cash equivalents	**13**	**61,880**
Net portfolio investment	**14**	**526,255**
Net investment of cash flows		**588,135**

The notes on pages 71 to 78 form part of these financial statements.

NOTES TO THE UNDERWRITING YEAR ACCOUNTS

1 Basis of preparation

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Members participate on a Syndicate by reference to a year of account and each Syndicate year of account is a separate annual venture.

These accounts relate to the 2013 year of account which has been closed by reinsurance to close as at 31 December 2015. Consequently the balance sheet represents the assets and liabilities of the 2013 year of account at the date of closure. The underwriting account reflects the transactions for that year of account during the three-year period until closure. These accounts cover the three years from the date of inception of the 2013 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

2 Accounting policies

Underwriting transactions

(i) Reinsurance to close

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

The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums net of deferred acquisition costs, and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities could be at variance from the premium so determined.

The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the receiving year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in previous accounts.

(ii) Gross Premiums written

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

(iii) Claims paid

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

(iv) Claims provisions and related recoveries

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not, and related internal and external claims handling expenses.

The ultimate liability as a result of outstanding claims could vary due to subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material.

(v) Deferred acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance and reinsurance contracts. Deferred acquisition costs represent the proportion of acquisition costs which will be expensed in subsequent years. Acquisition costs are deferred only to the extent that available future margins are expected to cover them.

(vi) Reinsurance

The syndicate buys reinsurance in the normal course of business for the purpose of limiting its net loss potential.

Reinsurance assets include amounts recoverable from reinsurers for losses and loss adjustment expenses. If a reinsurance asset is impaired, NSL reduces its carrying amount accordingly, and immediately recognises the impairment loss in the income statement. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event occurring after initial recognition of the asset, that NSL may not receive all amounts due to it under the terms of the contract, and that the event has a reliable measurable impact on the amounts that NSL will receive from the reinsurer.

(vii) Foreign exchange

Items included in the financial statements are measured using sterling as this is the functional and presentational currency, being the primary currency of the economic environment in which the NSL operates. Transactions in foreign currencies are translated using the average exchange rates applicable to the period in which the transaction occurs. NSL considers these to be a reasonable approximation of the rate at which the transaction actually took place.

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

(viii) Investments

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

(ix) Investment return

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

Realised gains and losses on investments carried at current value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting of business. All investment return is considered to arise on such funds.

(x) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings. Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

(xi) Net operating expenses

Net operating expenses consist of acquisition costs, Lloyd's charges and processing. The syndicate is charged a managing agency fee at a rate of 0.75% of stamp capacity with all necessary and reasonable expenses incurred in the administration of the syndicate being charged to the syndicate. Where expenses do not relate solely to Syndicate 2007, they are allocated between other Novae managed syndicates or other Novae group companies on such a basis as may be equitable for each type of expense.

Where expenses do not relate to any specific year of account they may be apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense. Where expenses are incurred jointly between the syndicate and other Novae group companies, they may be apportioned to the syndicate as appropriate.

Profit-related remuneration of certain underwriting and non-underwriting employees was charged to the syndicate on the closing year. Profit-related remuneration relating to the directors is not charged to the syndicate.

3 Risk Management

As a consequence of the 2013 year of account reinsuring to close into the 2014 year of account, the residual risks to the members on the closed year have been minimised. The risk disclosure requirements of FRS 102 are therefore deemed not applicable to these underwriting year accounts. However, it should be noted that a reinsurance contract does not extinguish the primary liability of the original underwriter.

4 Reinsurance to close premium payable, net of reinsurance

	£'000	**2013 year of account £'000**
Gross noted outstanding claims	518,891	
Less: reinsurance recoveries anticipated	(176,106)	
Net noted outstanding claims		**342,785**
Provision for gross incurred but not reported claims	235,574	
Less: reinsurance recoveries anticipated	(63,020)	
Provision for net incurred but not reported claims		**172,554**
Bad debt provision		**1,321**
Claims handling expense provision		**10,906**
Reinsurance premium to close the 2013 account		**527,566**

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Reinsurance to close premium	2013 year of account £'000
Technical provision movement in 2013 calendar year	**140,339**
Technical provision movement in 2014 calendar year	**29,488**
Reinsurance to close premium received at 31 December 2014	**548,324**
Technical provision movement in 2015 calendar year	**(187,694)**
Reinsurance to close premiums payable, net of reinsurance	**530,457**
Foreign exchange movements	**(2,891)**
Reinsurance premium to close the 2013 account	**527,566**

Foreign exchange movements arise from applying average exchange rates in the profit and loss account and closing exchange rates in the balance sheet.

5 Analysis of result between pure and prior year

	Pure year of account £'000	Prior year of account £'000	**2013 year of account £'000**
Net earned premium	548,526	1,695	**550,221**
Net claims incurred	(289,096)	29,641	**(259,455)**
Net operating expenses	(201,572)	(849)	**(202,421)**
Result before investment return	**57,858**	**30,487**	**88,345**
Investment return	2,488	3,152	**5,640**
Profit/loss on exchange	(4,717)	1,051	**(3,666)**
Profit for the 2013 closing year of account	**55,629**	**34,690**	**90,319**

Net operating expenses includes currency translation gains/losses

6 Segmental analysis

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

2013 Year of Account	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	**Result before investment return £'000**
Direct insurance:						
Marine, aviation and transport	54,188	54,188	(9,413)	(18,811)	(4,207)	**21,757**
Fire and other damage	118,309	118,309	(54,837)	(49,334)	(4,212)	**9,926**
Third party liability	122,269	122,269	(68,234)	(40,849)	(6,053)	**7,133**
Motor (other classes)	16,187	16,187	(14,094)	(5,340)	1,997	**(1,250)**
Credit and suretyship	38,769	38,769	(13,187)	(12,658)	(5,972)	**6,952**
Miscellaneous	3,496	3,496	(2,115)	(1,531)	(223)	**(373)**
Direct insurance	**353,218**	**353,218**	**(161,880)**	**(128,523)**	**(18,670)**	**44,145**
Reinsurance acceptances	**256,367**	**256,367**	**(114,794)**	**(73,898)**	**(23,475)**	**44,200**
Total	**609,585**	**609,585**	**(276,674)**	**(202,421)**	**(42,145)**	**88,345**

The analysis above have been prepared in accordance with the requirements of Schedule 3 of *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008: Insurance Companies* and does not necessarily reflect how the Board of NSL presents and uses information in its management of the syndicate.

Geographical origin of gross direct insurance premiums written

An analysis of gross direct insurance premiums written by reference to the location of the risk is provided below:

	2013 year of account £'000
Risks located in UK	**118,582**
Risks located in other member states of the EU	**21,890**
Risks located in US	**27,891**
Risks located in other countries	**184,855**
	353,218

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

7 Net operating expenses

	2013 year of account £'000
Acquisition costs	**135,131**
Administrative expenses	**57,402**
Loss on exchange	**316**
Standard personal expenses	**9,572**
	202,421

8 Investments

	2013 year of account £'000
Other shares and variable yield securities	**33,379**
Debt securities and other fixed income securities	**490,458**
Overseas deposits	**54,929**
	578,766

9 Debtors

	2013 year of account £'000
Arising out of direct insurance operations	**17,667**
Arising out of reinsurance operations	**20,279**
Other debtors	**36**
	37,982

All debtors, with the exception of £12k, are due within a year.

10 Amounts due to members

	2013 year of account £'000
Profit for the 2013 closing year of account	**90,319**
Transfers from members' personal reserve funds in calendar years 2013, 2014 and 2015	**(1,488)**
Amounts due to members at 31 December 2015	**88,831**

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

11 Creditors

	2013 year of account £'000
Arising out of direct insurance operations	**7,485**
Arising out of reinsurance operations	**6,141**
Other creditors	**1,999**
	15,625

All creditors, with the exception of £2k, are due within a year.

12 Related parties

Relevant information regarding related parties as they affect the 2013 closed year of account is detailed in note 24 of the annual accounts on pages 59 to 61.

13 Cash and cash equivalents

	2013 year of account £'000
Cash at bank and in hand	**9,369**
Deposits with credit institutions	**52,511**
Bank overdrafts	**-**
Total cash and cash equivalents	**61,880**

Only deposits with credit institutions with maturities of three months or less that are used by the syndicate in the management of its short-term commitments are included in cash and cash equivalents.

14 Movement in cash & cash equivalents, portfolio investments and financing

	At 1 January 2013 £'000	Cash flow £'000	Changes to market value and currencies £'000	**At 31 December 2015 £'000**
Cash and cash equivalents	-	61,880	-	61,880
Financial investments	-	526,255	-	526,255
Total portfolio investments	-	588,135	-	588,135

SUMMARY OF 7 YEAR RESULTS

	2007	2008	2009	2010	2011	2012	**2013**
Syndicate allocated capacity (£m)	360.000	360.000	360.000	525.000	575.000	575.000	**575.000**
Number of underwriting members	18	18	2	1	1	1	**3**
Net premiums net of brokerage (£m)	173.304	192.877	190.101	380.771	423.511	381.252	**415.089**

Results for illustrative share of £10,000

	£	£	£	£	£	£	**£**
Gross premium	8,421	9,781	9,855	11,155	11,211	10,393	**10,601**
Net premiums	6,292	7,080	7,070	9,501	9,911	9,147	**9,569**
Premiums for the reinsurance to close the previous year of account	3,915	3,616	4,702	10,302	8,643	9,282	**9,536**
Net claims	(3,628)	(3,560)	(3,108)	(6,733)	(5,281)	(4,931)	**(4,823)**
Premiums for the reinsurance to close the year of account	(3,616)	(4,702)	(5,272)	(9,645)	(9,474)	(9,507)	**(9,225)**
Profit / (loss) on exchange	201	5	53	(39)	(8)	(151)	**(69)**
Syndicate operating expenses	(2,082)	(2,397)	(2,469)	(3,003)	(3,162)	(2,959)	**(3,348)**
Balance on technical account	1,082	42	976	383	629	881	**1,640**
Investment return	387	408	357	434	196	203	**98**
Profit before personal expenses	**1,469**	**450**	**1,333**	**817**	**825**	**1,084**	**1,738**
Standard personal expenses							
Managing agency fee	(75)	(75)	(75)	(75)	(75)	(75)	(75)
Managing agent's profit commission	(218)	(52)	(206)	-	-	-	(237)
Lloyd's central fund	(100)	(39)	(41)	(44)	(44)	(21)	**(42)**
Lloyd's subscription	(50)	(39)	(41)	(44)	(44)	(41)	**(42)**
	(443)	(205)	(363)	(163)	(163)	(137)	**(396)**
Profit after standard personal expenses	**1,026**	**245**	**970**	**654**	**662**	**947**	**1342**

Percentage applicable for an illustrative share of £10,000

	%	%	%	%	%	%	**%**
Gross premiums	84.2%	97.8%	98.5%	111.6%	112.1%	103.9%	**106.0%**
Net premiums	62.9%	70.8%	70.7%	95.0%	99.1%	91.5%	**95.7%**
Balance on technical account to gross premiums	**12.8%**	**0.4%**	**9.9%**	**3.4%**	**5.6%**	**8.5%**	**15.5%**

Gross and net premiums and syndicate operating expenses are inclusive of brokerage and commission costs unless otherwise stated. Profit commission is calculated on a fully non-aligned basis and charged across the participation for this exhibit.