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Novae

NOVAE SYNDICATE 2007

NOVAE SYNDICATES LIMITED ● REPORT & ACCOUNTS 2016

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DIRECTORS AND ADMINISTRATION

Directors of Novae Syndicates Limited
1 January 2016 to 20 March 2017

M P Hudson	Non-Executive Chairman
J L J Butcher	Chief Executive Officer
I Burford	(resigned 1 March 2017)
D F M Cote	Non-Executive
R D Forster	
M A Hudson	(resigned 9 September 2016)
N J Moss	(appointed 14 November 2016)
R Patel	
D J Pye	Non-Executive

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

A J Moon

Managing agent's registered office

Novae Syndicates Limited
21 Lombard Street
London EC3V 9AH

Managing agent's registered number

2082070

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Investment managers

BlackRock
12 Throgmorton Avenue
London EC2N 2DL

CHAIRMAN'S STATEMENT

The Lord Chancellor's Ogden rate announcement, both in terms of timing and severity, has overshadowed our 2016 results. The resultant increases in reserves within our motor reinsurance and general liability classes have significantly eroded profits this year resulting in an overall loss for Syndicate 2007 for the 2016 calendar year and a reduced closed year profit for the 2014 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.

The stamp capacity for the 2016 underwriting year was £700 million. This was increased to £800m for the 2017 underwriting year. Novae Group plc ("Novae") will provide 100% of the capacity on Syndicate 2007 for the 2017 underwriting year through its own corporate member, Novae Corporate Underwriting Limited ("NCUL").

For the 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 2014, 2015 and 2016 underwriting years at 31 December 2016 is summarised below (in combined sterling £m). They are shown gross of acquisition costs.

Property	2016	2015	2014
Property insurance	308.8	264.4	161.3
Property reinsurance	91.1	67.3	69.0
Agriculture & livestock	6.9	40.3	49.3
Property total	406.8	372.0	279.6

Casualty	2016	2015	2014
Specialty liability	55.9	81.8	82.1
General liability & Motor	60.3	73.9	68.8
Casualty reinsurance	44.1	28.6	19.8
Casualty total	160.3	184.3	170.7

MAP	2016	2015	2014
Marine & energy	164.3	144.5	141.5
Credit & political	70.8	77.0	65.5
Aviation RI	16.5	21.1	17.3
MAP total	251.6	242.6	224.3

Total gross premiums	818.7	798.9	674.6

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 operates at the highest level through three divisions Property; Casualty; and Marine, Aviation and Political Risk (MAP). Growth within the Syndicate was focussed on those areas where we have market leading expertise and where we are delivering consistent profitability. It is these classes that are at the forefront of the Syndicate's growth plans for 2017 and beyond. Those units where we feel we do not hold a commanding market position, or where rates remain under persistent pressure, and where consequently the Syndicate does not expect to make adequate returns over the cycle, have been cut back or exited. As part of this approach we discontinued writing Property per Risk reinsurance business during the year, and in the final quarter of 2016 we closed our International Liability unit. Active management of the portfolio remained our focus throughout the year and we reduced premium levels in 14 of 32 underwriting units to reflect challenging market conditions.

The purchase of outward reinsurance is an important part of controlling underwriting risk. Over recent years the Syndicate has made increasing use of quota share reinsurance. The use of quota shares allows us to retain a presence in classes which may be under pricing pressure but which we nevertheless believe will deliver returns in the long term.

Another important risk for the Syndicate is reserving risk. Since 2013 the Board of NSL have felt it appropriate to hold margin over and above actuarially determined best estimate reserves at syndicate level.

As a specialty syndicate, it is central to our strategic goals that we seek to take on underwriting risks and, to a lesser extent, investment risks. These are our core risks where we have the expertise and experience to price and manage them in order to derive profit. Underwriting risk and reserving risk dominate the risk profile of the Syndicate. A short duration profile to the investment portfolio is designed to contain market risk and the Syndicate maintains a cautious approach to credit risk in both the investment portfolio and arrangements with reinsurance counterparties. 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. A fuller assessment of the application of risk management to Syndicate 2007 is contained in the separate section that follows this statement.

CHAIRMAN'S STATEMENT (continued)

Total reserves at 31 December 2016:

		Gross £m	Net £m
Property	2014 & prior years	52.3	50.8
	2015 year	76.5	71.3
	2016 year	91.4	67.4
Casualty	2014 & prior years	628.8	431.1
	2015 year	123.7	113.9
	2016 year	61.2	42.8
MAP	2014 & prior years	204.2	157.1
	2015 year	101.9	83.2
	2016 year	54.8	40.9
Total claims reserves		1,394.8	1,058.5
Unearned premiums (net of deferred acquisition costs)		340.9	261.0
Total reserves		**1,735.7**	**1,319.5**

2016 annually accounted result

Syndicate 2007's result for 2016 was aided by a strong investment return under our new investment strategy implemented in 2015 and favourable foreign exchange movements following the UK's decision to exit the European Union and the US Presidential election. However the underwriting performance was disappointing compared to recent years due to the change in the Ogden rate and the increased prevalence of global natural disasters. I am not referring here to major hurricanes and earthquakes such as Hurricane Katrina in 2005, or the earthquake in Japan in 2011 – mercifully there were no disasters on that scale during the year. Rather, I am referring to natural catastrophes which, although tragic and often fatal events in their own right, are not so large as to trigger reinsurance recoveries for the Syndicate, and hence we absorb a larger proportion of the loss ourselves. During 2016, there was a high incidence of these 'smaller scale' natural catastrophes, and even Hurricane Matthew, terrible and hugely damaging though it was, did not cause the level of damage and destruction in the US that was originally forecast. The result also includes the impact of the change to the application of our accounting policy on the treatment of Deferred Acquisition Costs.

On 27th February 2017, the Ministry of Justice announced the long awaited outcome of its review of the discount rate used to settle personal injury claims ("the Ogden rate"). In preparation for this we had undertaken a detailed assessment of the impact of different Ogden rates on the Syndicate's net reserves. The revised Ogden rate of minus 0.75% has resulted in an increase to our combined ratio[1] from 99.8% to 107.7%.

The reported result after foreign currency translation differences was a loss of £23.5 million (2015 restated: profit of £71.7 million). Included within the loss is an increase in reserves of £33.1 million on 2014 and prior underwriting years (2015: £33.6 million reserve release in respect of 2013 and prior underwriting years). The additional margin held above actuarially determined best estimate in the Syndicate at 31 December 2016 has increased to £55.5 million (2015: £41.6 million).

In 2016 the overall contribution to profit from investment return, net of investment management expenses, was £21.0 million (2015: £4.8 million). This represents an average investment return of 2.0% on average invested funds of £1,042.2 million (2015: average investment return of 0.5% on average invested funds of £920.3 million).

[1] The combined ratio is the ratio of incurred claims and expenses to net earned premium. This is before the effects of foreign exchange and investment returns.

CHAIRMAN'S STATEMENT (continued)

Net operating expenses were £322.8 million (2015 restated: £257.9 million). This includes earned acquisition costs of £269.4 million (2015 restated: £214.1 million), representing a ratio to net earned premium of 37.6% (2015 restated: 33.7%). The increase acquisition ratio was driven by the change in business mix and the strategic decision to reduce the level of reinsurance business, which traditionally attracts lower acquisition costs. Syndicate administrative expenses were £44.4 million (2015 restated: £33.5 million) and include increased investment in staff and IT, as well as costs relating to the move to 21 Lombard Street.

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:

2014 underwriting year result on closure at 36 months

The 2014 year of account has been closed after 36 months with a profit of 5.1% of stamp capacity after the deduction of managing agent's profit commission. As shown in note 5 on page 68, included within this result is a loss of £15.7 million on business transacted in prior years inherited through the incoming reinsurance to close of the 2013 year of account. The revision of the Ogden rate from 2.5% to minus 0.75% has resulted in a material impact to the result of the Syndicate, particularly on the 2014 year of account result, which has now closed towards the lower end of the latest forecast range of 5%-10%. Before making the adjustment for the Ogden rate we would have reported a profit on closure of 10.6% of stamp capacity.

On closure of the 2014 pure year of account the projected ultimate net loss ratio is 74%, which compares with 66% on the pure 2013 year of account at the same stage.

2015 underwriting year at 24 months

The net incurred loss ratio at 24 months is 53%, which compares with 49% on the 2014 underwriting year at the same stage. The contribution from investment return to the eventual outcome on closure is expected to be strong as a result of the new investment strategy, which has already produced a strong return in the 2016 calendar year. However the overall result has been constrained as a result change in the Ogden rate and the higher claims experience due to the increase in global natural disasters. At this stage the managing agent is forecasting a profit in the range 5%–10%.

2016 underwriting year at 12 months

There has been an increased prevalence of global natural disasters in the 2016 calendar year, particularly for natural catastrophes where we absorb a large proportion of the loss ourselves as they are not large enough to trigger reinsurance recoveries. As such the 2016 underwriting year has produced a net incurred loss ratio at 12 months of 33%, which compares with 25% on the 2015 underwriting year at the same stage. However at this early stage, it would be premature to make any firm predictions about the likely outcome.

Directorate changes

Mark Hudson resigned from the NSL Board in September 2016 after 20 years' service to Novae. He is replaced as Finance Director by Nick Moss who was appointed in November 2016. Ian Burford resigned from the NSL Board in March 2017.

CHAIRMAN'S STATEMENT (continued)

Concluding remarks

The Syndicate has produced another pleasing profit on the closed underwriting year, albeit lower than we had originally anticipated before the change in the Ogden rate. The managing agent continues to build and refine the business base of Syndicate 2007 by refocusing away from areas where one is not a 'lead' market, and to focus on those areas where one can exhibit a demonstrable competitive advantage whilst maintaining reserve strength.

Novae is extremely fortunate to have the breadth of skills evident in the development and performance of Syndicate 2007. On behalf of the managing agent, 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
20 March 2017

MANAGING AGENT'S REPORT

The Directors of Novae Syndicates Limited ("NSL") present the report on the activities of Syndicate 2007 for the year ended 31 December 2016. 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 17 to 56.

Separate underwriting year accounts for the 2014 closed year have been prepared for the members of this year of account and are shown on pages 58 to 71.

Directors

The directors of NSL who held office during the year and up to the date of signing of the annual accounts were:

M P Hudson	Non-Executive Chairman
J L J Butcher	Chief Executive Officer
I Burford	(resigned 1 March 2017)
D F M Cote	Non-Executive
R D Forster	
M A Hudson	(resigned 9 September 2016)
N J Moss	(appointed 14 November 2016)
R Patel	
D J Pye	Non-Executive

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 2016 is a loss of £23.5 million (2015 restated: profit of £71.7 million). The results have been significantly impacted by the change in the Ogden rate for bodily injury claims that was announced on 27 February 2017. Before this change, the Syndicate had produced a profit of £33.0 million for 2016.

During the year, the Syndicate entered into an arrangement to purchase quota share reinsurance from Syndicate 6129, a special purpose arrangement ("SPA"), which is also managed by NSL. This arrangement forms a part of the Group's capital management strategy.

In 2016, the managing agent reviewed the Syndicate's accounting policy relating to the treatment of deferred acquisition costs and the associated recognition of acquisition costs in the income statement. As a result of this review, it was identified that there were certain operating expenses, that were previously deferred, that should have been charged directly to the income statement as incurred. In addition it was identified that the method by which deferred acquisition costs were released to the income statement did not appropriately match the related premium earnings pattern. This review resulted in a number of corrections by restating each of the affected financial statement line items for prior periods. The impact of the restatement is shown in note 2 to the financial statements.

The 2017 underwriting year opens with an underwriting capacity of £800 million. The Syndicate will continue to purchase quota share reinsurance from Syndicate 6129.

MANAGING AGENT’S REPORT (continued)

Risk Management Strategy & Objectives

NSL adopts the Group risk management strategy and objectives, placing Risk management at the heart of NSL’s business as a driver of competitive advantage.

Novae Group’s Risk Strategy is an extension of business strategy. To achieve strategic goals, the Group seeks to take on underwriting risks, and to a lesser extent investment risks through the underwriting of specialty (re)insurance products and through financial investments.

The Group recognises that commercial operation within our market requires the assumption of other risks, as to eliminate them completely would be uneconomical or impossible. These risks include counterparty credit risks associated with our insurance business and operational risks associated with our people, processes and systems.

All risk-taking activity is guided by the following principles:

> We take risks that are in line with our strategy
> We take risks that are rewarded, with returns commensurate to the level of risk assumed
> We take risks that we understand and can manage
> We take risks within clearly defined limits

Key performance indicators (“KPIs”)

> Loss of £23.5 million; profit of £33.0 million prior to Ogden adjustment (2015 restated: £71.7 million)
> Underlying year-on-year growth in gross written premium, at constant exchange rates, of 4.8% (2015: 19.7%)
> Investment return of 2.0% on invested assets (2015: 0.5%)
> Overall combined ratio of 107.7%; 99.8% prior to Ogden adjustment (2015 restated: 89.0%)
> Members’ balance of £17.2 million (2015 restated: £130.5 million)

The announcement on 27 February 2017 by the Lord Chancellor in conclusion to her review of the discount rate for personal injury claims (the “Ogden” rate) resulted in the Ogden rate being revised from 2.5% to minus 0.75%. This change had a material one-off impact on the results of the Syndicate.

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: Risk Ownership	Second Line: Risk Oversight	Third Line: Risk Assurance
The business is responsible for the identification and assessment of risks and the design and operation of effective internal controls.	Risk Management and Compliance are responsible for supporting and monitoring effective risk management and regulatory compliance processes in the business. This includes oversight and challenge of First Line processes. Reporting to the NSL Risk and Audit Committee.	Internal Audit provide independent assurance on the effectiveness of governance, risk management, compliance and internal controls. Reporting to the NSL Risk and Audit Committee.

MANAGING AGENT'S REPORT (continued)

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

- 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. Risk and capital assessments use this business plan as a base.
- 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 current and projected position against risk appetite
  - risk exposure and control performance
  - emerging risks
  - material risk events
  - available capital

- 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 has oversight of the Internal Model, for which day to day responsibility is delegated to the Chief Actuary. The Internal Model is built and operated by the Actuarial Function, led by the Chief Actuary. The review of parameterisation, model results, model validation and model changes, in accordance with the model change policy, is overseen 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. This is reported quarterly to the NSL Audit and Risk Committee and Board through the Q-ORSA process

- 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.

  - The risk matrix records the principal risks to the business, and documents the key controls applied to mitigate those risks.
  - Risk and Control Self-Assessments and Detailed Control Reviews help to ensure that the risk and control environment are regularly reviewed and that exposures are assessed against appetite
  - 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 the Syndicate 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 NSL Audit and Risk Committee monitors risk exposures with support from the Risk Management Function.

MANAGING AGENT'S REPORT (continued)

Risk Management Oversight and Governance

In January 2016, the Group's risk management governance structure changed to clarify responsibility between Group governance and the governance of Syndicate 2007, as the key regulated insurance entity in the Group. The key change was the establishment of a dedicated Board Risk Committee for Novae Group plc and an Audit and Risk Committee for Novae Syndicates Limited (collectively, the "Risk Committees").

The new Risk Committees continued to have oversight responsibility for the Risk Management Framework of Novae Group plc and Novae Syndicates Limited under the three lines of defence model. Whilst the broad remit of the Risk Committees remained unchanged, the governance change has provided a sharper focus on strategic risk issues and this clarification of responsibilities increased the robustness of the risk oversight and challenge process. The role of monitoring risk exposures continued to be delegated by the respective Risk Committees to a number of functional sub-committees, which have responsibility for the management of specific risks. The Risk Committees are supported by the Group Risk Management Function in executing their risk oversight duties.

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 Syndicate 2007.

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 Syndicate 2007. 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.	Some continuing growth of exposures from underwriting opportunities in niche areas is partially offset by reductions in business in other areas and 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.	Broad pressure on premium rates continues to drive an upwards trend in this risk. This is offset to a degree 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 in line with 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.	Investment risk exposure has remained broadly stable over 2016, reflecting a long-term strategic asset allocation and our investment risk appetite. Short-term market volatility has increased, following uncertainties in the political and economic environment.	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 the Syndicate. 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 risen as reinsurance usage has increased in some areas. Exposures remain with well-rated counterparties.	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 from 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.	Operational control system that covers all material business processes keeping the likelihood and impact of operational failures within acceptable bounds. A dedicated Compliance function to support and monitor effective regulatory compliance. Change management controls, including a project methodology. Detailed Business continuity planning Succession planning, talent management and effective remuneration controls.

Statement of disclosure of information to Auditors

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 Auditors

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 M Rowe, 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 2014 Year of Account are at pages 18 and 59 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.

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 20 March 2017.

J L J Butcher
Chief Executive Officer

Novae Syndicates Limited
21 Lombard Street
London EC3V 9AH

ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 AUDITORS' 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 2016 and of its loss 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 2016, included within Report & Accounts 2016 (the "Annual Report"), comprise:

> the balance sheet as at 31 December 2016;
> 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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2007
(continued)

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 17, 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.

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
20 March 2017

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT

For the year ended 31 December 2016

	Note	2016 £m	2016 £m	2015 Restated £m	2015 Restated £m
Earned premiums, net of reinsurance					
Gross premiums written	4	**901.0**		789.3	
Outward reinsurance premiums		**(197.0)**		(103.4)	
Change in the provision for unearned premiums					
Gross amount	5	**(21.7)**		(62.2)	
Reinsurers' share	5	**33.4**		11.7	
			715.7		635.4
Allocated investment return transferred from the non-technical account			**21.0**		4.8
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(429.4)**		(343.9)	
Reinsurers' share		**62.1**		62.6	
Change in the provision for claims					
Gross amount	5	**(102.2)**		12.3	
Reinsurers' share	5	**21.5**		(39.2)	
	6		**(448.0)**		(308.2)
Net operating expenses	7		**(322.8)**		(257.9)
Balance on the technical account			**(34.1)**		74.1

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

The notes on pages 26 to 56 form part of these financial statements.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

For the year ended 31 December 2016

	Note	2016 £m	2015 Restated £m
Balance on the technical account		**(34.1)**	74.1
Investment income	**11**	**28.5**	17.2
Unrealised gains on investments		**7.3**	2.1
Investment expenses and charges	**12**	**(7.0)**	(7.2)
Unrealised losses on investments		**(7.8)**	(7.3)
Allocated investment return transferred to the technical account		**(21.0)**	(4.8)
Gain/(loss) on foreign exchange		**10.6**	(2.4)
(Loss)/profit for the financial year		**(23.5)**	71.7

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 26 to 56 form part of these financial statements.

BALANCE SHEET: ASSETS

As at 31 December 2016

Assets	Note	2016 £m	2016 £m	2015 Restated £m	2015 Restated £m
Investments					
Other financial investments	13		**1,076.9**		937.8
Reinsurers' share of technical provisions					
Provision for unearned premiums	5	**79.9**		38.4	
Claims outstanding	5	**336.3**		284.3	
			416.2		322.7
Debtors					
Debtors arising out of direct insurance operations	14	**178.4**		174.7	
Debtors arising out of reinsurance operations	15	**187.0**		158.7	
Other debtors	16	**3.7**		1.7	
			369.1		335.1
Other assets					
Cash at bank and in hand	17	**22.8**		32.3	
Other	18	**2.0**		1.8	
			24.8		34.1
Prepayments and accrued income					
Accrued interest		**5.5**		5.3	
Deferred acquisition costs	19	**146.8**		121.6	
Other prepayments and accrued income		**15.3**		10.8	
			167.6		137.7
Total assets			**2,054.6**		1,767.4

The notes on pages 26 to 56 form part of these financial statements.

BALANCE SHEET: LIABILITIES
As at 31 December 2016

		2016		2015 Restated	
Liabilities	Note	**£m**	**£m**	£m	£m
Capital and reserves					
Members' balances	20		**17.2**		130.5
Technical provisions					
Provision for unearned premiums	5	**487.7**		409.7	
Claims outstanding	5	**1,394.7**		1,157.9	
			1,882.4		1,567.6
Creditors					
Creditors arising out of direct insurance operations	21	**51.0**		24.4	
Creditors arising out of reinsurance operations	22	**86.1**		29.0	
Other creditors	23	**12.1**		14.1	
			149.2		67.5
Accruals and deferred income			**5.8**		1.8
Total liabilities			**2,054.6**		1,767.4

The financial statements on pages 20 to 56 were approved by the Board of Novae Syndicates Limited on 20 March 2017 and were signed on its behalf by:

N J Moss
Director

The notes on pages 26 to 56 form part of these financial statements.

STATEMENT OF CHANGES IN MEMBERS' BALANCES
As at 31 December 2016

		2016 Members' Balances £m	2015 Restated Members' Balances £m
Year ended 31 December 2016	Note		
Total recognised income for the year		(23.5)	71.7
Total recognised in other comprehensive income for the year		-	-
Total comprehensive income for the year		**(23.5)**	**71.7**
Transfer to members' personal reserve funds		(89.8)	(53.9)
Net increase/(decrease) in equity		(113.3)	17.8
As at 31 December 2015		130.5	112.7
As at 31 December 2016	20	**17.2**	**130.5**

The notes on pages 26 to 56 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 £m	2015 Restated £m
Profit for the financial year		**(23.5)**	71.7
Adjustments for:			
Increase in net technical provisions		**221.3**	91.1
(Increase) in debtors		**(64.1)**	(87.4)
Decrease/(increase) in creditors		**85.7**	12.9
Investment return		**(21.0)**	(4.8)
Effect of exchange rates on cash presented separately		**(9.9)**	3.1
Net cash inflow from operating activities		**188.5**	86.6
Cash flow from investing activities:			
Purchase of equity and debt instruments		**(1,140.1)**	(1,222.0)
Sale of equity and debt instruments		**1,135.9**	1,190.1
Investment income received		**13.7**	5.5
Impact of foreign exchange on investments		**(105.3)**	6.4
Net cash from investing activities		**(95.8)**	(20.0)
Cash flow from financing activities:			
Transfer to members in respect of underwriting participations		**(90.3)**	(54.4)
Non-standard personal expenses		**0.5**	0.5
Net cash (used in) financing activities		**(89.8)**	(53.9)
Net increase / (decrease) in cash and cash equivalents		**2.9**	12.7
Opening cash and cash equivalents		**102.5**	92.9
Effect of exchange rates on cash and cash equivalents		**9.9**	(3.1)
Closing cash and cash equivalents	17	**115.3**	102.5

The notes on pages 26 to 56 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

The Syndicate comprises a member of the Society of Lloyd's that underwrites insurance business through a quota share reinsurance agreement. The address of NSL, the Syndicate's managing agent, is 21 Lombard St, London, EC3V 9AH.

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 annual accounts comprise the calendar year movement in the 2014, 2015 and 2016 years of account of Syndicate 2007. All figures included in the consolidated financial statements are presented in millions of pounds sterling, rounded to the nearest £0.1 million unless otherwise stated.

In March 2016, the FRC issued amendments to the fair value hierarchy disclosures contained within section 34 of FRS102 in order to increase the consistency with disclosures required by EU-adopted IFRS. As is permitted, the Syndicate has early adopted the provisions of the updated standard.

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 under the historical cost convention, as modified by the revaluation of financial assets at fair value through the income statement. The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) Recognition and measurement: premiums

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.

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

An estimate is made at the balance sheet date to recognise retrospective adjustments to premiums or commissions. Earned premium is 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. The provision for unearned premium both gross and ceded represents the portion of written premium expected to be earned in future periods.

(ii) Reinsurance

The Syndicate buys reinsurance in the normal course of business for the purpose of limiting its net loss potential. Outward reinsurance premiums are accounted for in the same period as the premiums for the related insurance or inwards reinsurance business.

Reinsurance assets include amounts recoverable from reinsurers for losses and loss adjustment expenses. If a reinsurance asset is impaired, the Syndicate 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 the Syndicate 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 the Syndicate will receive from the reinsurer.

Reinsurance arrangements do not relieve the Syndicate from its direct obligations to its policyholders.

(iii) Recognition and measurement: claims

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

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. The main assumptions used in the calculation of the ultimate cost of outstanding claims are detailed in the reserving risk section of note 3 on pages 33 and 35.

(iv) Deferred acquisition costs

Acquisition costs comprise all commissions and other direct and indirect costs arising from the conclusion of insurance and reinsurance contracts, including a proportion of direct and indirect expenses. Deferred acquisition costs represent the proportion of acquisition costs which will be expensed in subsequent accounting periods; the deferral is calculated in the same manner as the unearned premiums provision. Acquisition costs are deferred only to the extent that available future margins are expected to cover them. Certain reinsurance commissions and profit participations are also included within expenses for the acquisition of insurance contracts and are deferred in line with unearned premium.

(v) Liability adequacy testing

At each balance sheet date, liability adequacy tests are performed at a year of account level and reviewed 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 deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (unexpired risk provision).

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

(vi) 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 Syndicate 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.

The principal exchange rates applied in the period are shown below:

	2016 Year-end rate	**2016 Annual average rate**	2015 Year-end rate	2015 Annual average rate
Australian dollar	**1.71**	**1.82**	2.03	2.04
Canadian dollar	**1.66**	**1.79**	2.05	1.95
Euro	**1.17**	**1.22**	1.36	1.38
US dollar	**1.24**	**1.35**	1.47	1.53

vii) 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.

(viii) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

(ix) 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.

(x) 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 agent 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 is charged to the Syndicate. Profit-related remuneration relating to the directors is not charged to the Syndicate.

(xi) Pension costs

Novae 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.

(xii) Related Parties

Related party disclosures, including those relating to the directors, are outlined in note 25 of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

(xiii) Prior year restatement

In 2016, NSL reviewed the Syndicate's accounting policy relating to the treatment of deferred acquisition costs and the associated recognition of acquisition costs in the income statement. As a result of this review, it was identified that there were certain operating expenses that were previously deferred that should have been charged directly to the income statement as incurred. In addition it was identified that the method by which deferred acquisition costs were released to the income statement did not appropriately match the related premium earnings pattern.

The review resulted in a number of corrections by restating each of the affected financial statement line items for prior periods. The table below summarises the impact on the balance sheet:

	As previously reported	Adjustments	As restated
As at 1 January 2015	£m	£m	**£m**
Deferred acquisition costs	114.6	(14.2)	100.4
Other assets	1,569.3	-	1,569.3
Total assets	**1,683.9**	**(14.2)**	**1,669.7**
Total liabilities	**1,557.0**	**-**	**1,557.0**
Members' balance	**126.9**	**(14.2)**	**112.7**
As at 31 December 2015	£m	£m	**£m**
Deferred acquisition costs	138.8	(17.2)	121.6
Other assets	1,645.8	-	1,645.8
Total assets	**1,784.6**	**(17.2)**	**1,767.4**
Total liabilities	**1,636.9**	**-**	**1,636.9**
Members' balance	**147.7**	**(17.2)**	**130.5**

The effects on the profit and loss account for the year ended 31 December 2015 were as follows:

	As previously reported	Adjustments	As restated
For the year ended 31 December 2015	£m	£m	**£m**
Expenses for the acquisition of insurance contracts	(174.2)	(39.9)	**(214.1)**
Administrative expenses	(70.4)	36.9	**(33.5)**
Other profit and loss account items	319.3	-	**319.3**
Restated profit for the financial year	**74.7**	**(3.0)**	**71.7**

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

During the year, a review of Lloyd's overseas deposits was performed to determine the classification of overseas deposits between investments and cash and cash equivalents. This involved an analysis of the underlying assets held within the Lloyd's overseas deposit funds. As a result of this review it was determined that £18.9 million of overseas deposit balance have been reclassified as investments from cash equivalents at 31 December 2015, and £5.6 million of overseas deposits reclassified from cash and cash equivalents to investments at 1 January 2015. This has been reflected in the statement of cash flows. The review did not impact the presentation of these balances on the balance sheet, which has been prepared in accordance with Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

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 and premium income estimates, 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 second key area of estimation relates to the premiums written during the year that have not been notified to the managing agent by the year end ("pipeline premium"). An initial estimate of the premium income ("EPI") on each binding authority agreement is made upon inception of the contract. This estimate is made based on an assessment of prior year business volumes and expected business volumes for the current financial year. EPI figures are monitored throughout the year against the actual written premium declarations received, and revised where necessary. Pipeline premium is calculated as a function of the EPI, less the notified written premium.

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:

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, mispricing at the point of underwriting, changes in interpretation in contractual terms. Novae categorises underwriting risk into catastrophe, non-catastrophe and reserving risk. Functional oversight of the management of insurance risk is delegated 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.

NOTES TO THE FINANCIAL STATEMENTS

3.1.1 Underwriting risk: Catastrophe (continued)

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.

The Syndicate 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 NSL Board sets the overarching appetite for exposure to catastrophe events. This is implemented in practice using a framework for expressing Target Aggregate exposure ("TAg"), where the actual and projected aggregate exposure is periodically assessed against defined targets and limits for a range of scenarios that contribute to the Syndicate's overall catastrophe risk exposure.

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 Committees 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 NSL Audit and Risk Committee and the NSL Board together with any remedial action taken or planned.

This analysis uses a combination of in-house scenarios and 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 actual exposure against Target Aggregates and RDS as appropriate throughout the year.

The potential for accumulation of losses from multiple events in the same year is considered by the NSL Board and reported in the Quarterly ORSA process.

In addition to particular natural loss events, the managing agent 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. One area of note is the recent inclusion of cyber risk scenarios within the framework, covering losses arising both from Novae's cyber underwriting, and also the potential for cyber-related losses on other underwriting.

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 Syndicate 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.

NOTES TO THE FINANCIAL STATEMENTS

3.1.2 Underwriting risk: non-catastrophe (continued)

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 catastrophic 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. The Syndicate underwrites 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. The appetite for this risk is determined by the available capital and the adequacy of returns available in the market.

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.

Novae 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. The NSL 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.

NOTES TO THE FINANCIAL STATEMENTS

3.1.3 Underwriting risk: reserving (continued)

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 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 and Risk 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 syndicate accounts above the mean expectation.

To indicate the potential impact of reserving risk on the Syndicate, were there to be a 1% variation in the Syndicate’s total net claims reserve, there would be a pre-tax effect of £10.1 million (2015: £8.8 million).

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

Claims development table gross of reinsurance

Underwriting year	**2010&P**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Estimate of cumulative claims	£m	£m	£m	£m	£m	£m	£m	£m
At end of underwriting year	1,440.4	237.8	212.9	186.3	192.2	209.8	248.6	248.6
One year later	1,851.3	386.2	350.9	329.6	387.1	472.7		472.7
Two years later	1,825.8	417.4	385.1	352.8	432.3			432.3
Three years later	1,853.1	417.9	379.6	357.2				357.2
Four years later	1,779.3	421.7	390.7					390.7
Five years later	1,723.1	422.3						422.3
Six years later	1,716.6							1,716.6
Cumulative payments	1,351.6	339.3	281.5	234.8	226.7	170.6	41.2	2,645.7
Estimated balance to pay	365.0	83.0	109.2	122.4	205.6	302.1	207.4	1,394.7

NOTES TO THE FINANCIAL STATEMENTS

3.1.3 Underwriting risk: reserving (continued)

Claims development table net of reinsurance

Underwriting year	2010&P	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims	£m	£m	£m	£m	£m	£m	£m	£m
At end of underwriting year	1,030.9	214.7	198.2	170.5	172.7	187.7	188.4	183.6
One year later	1,349.3	350.7	333.2	303.2	354.5	430.4		421.0
Two years later	1,316.0	380.8	359.8	322.6	392.6			386.9
Three years later	1,291.7	392.9	356.5	329.5				325.9
Four years later	1,241.2	382.1	367.3					357.1
Five years later	1,200.5	383.2						375.7
Six years later	1,177.5							1,174.0
Cumulative payments	989.7	312.5	269.1	223.4	216.4	162.0	37.4	2,210.5
Estimated balance to pay	187.8	70.7	98.2	106.1	176.2	268.4	151.0	1,058.4

3.2 Investment risk

Investment risk is the risk of an adverse change in earnings and/or solvency resulting from fluctuations and volatilities in the value of our assets, liabilities and financial Instruments caused by changes in market variables.

The key investment risks the Syndicate is exposed to are interest rate risk, currency risk, credit spread risk, equity risk and counterparty risk. Operational risk also arises from the process of investment management.

Key features of our investment strategy include:

- A whole balance sheet approach to management of syndicate 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)

NOTES TO THE FINANCIAL STATEMENTS

3.2.1 Investment risk: governance and operational aspects

The Board retains overall responsibility for setting investment risk appetite, investment strategy and defining the eligible investment universe. The Investment Committee ("IC") is mandated with implementing the investment strategy and monitoring its performance. Regular investment returns and asset analyses are reported to 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 NSL Board.

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: interest rate risk

This is the risk that the value of assets or liabilities will change due to a change in the term structure of interest rates. The Syndicate's exposure to interest rate risk is spread across Novae's investment portfolio, borrowings, cash and cash equivalents.

The investment risk management strategy seeks to match the interest rate risk of its investments to its liabilities thereby minimising the solvency risk associated with changing interest rates.
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:

	2016 £m	**2016 Average duration Years**	2015 £m	2015 Average duration Years
Total syndicate financial assets	**1,099.7**	**3.0**	970.1	2.4

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 £29.7 million (2015: £35.0 million). This is driven by the change in investment approach, which includes extending average duration from approximately 2.4 year to approximately 3 years.

NOTES TO THE FINANCIAL STATEMENTS

3.2.3 Investment risk: foreign exchange risk

This risk arises from changes in the level of currency exchange rates.

The Syndicate is exposed to currency risk arising from foreign currency investment portfolios and non-sterling assets and liabilities. The core currencies that the Syndicate receives and reports in are: Sterling, US dollars, Euros, Canadian dollars and Australian dollars. Other currencies are translated into Sterling either at the time of receipt or at the balance sheet date.

Currency exposures 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.

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 2016:

	GBP £m	USD £m	EUR £m	CAD £m	AUD £m	Total £m
Financial investments	275.8	501.7	142.9	73.4	83.1	1,076.9
Reinsurers' share of technical provisions	134.1	229.3	17.4	21.2	14.2	416.2
Insurance and reinsurance receivables	102.4	248.7	1.8	1.3	11.2	365.4
Cash and cash equivalents	14.0	1.4	4.7	-	2.7	22.8
Other assets	74.2	82.2	8.8	3.7	4.4	173.3
Total assets	600.5	1,063.3	175.6	99.6	115.6	2,054.6
Technical provisions	596.9	938.2	169.4	73.3	104.6	1,882.4
Insurance and reinsurance payables	26.5	102.6	3.0	1.9	3.1	137.1
Other creditors	12.7	5.2	-	-	-	17.9
Total liabilities	636.1	1,046.0	172.4	75.2	107.7	2,037.4
Net assets	(35.6)	17.3	3.2	24.4	7.9	17.2

NOTES TO THE FINANCIAL STATEMENTS

3.2.3 Investment risk: foreign exchange risk (continued)

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	64.1	60.7	9.1	2.7	4.6	141.2
Total assets	672.7	739.1	187.5	92.0	76.1	1,767.4
Technical provisions	615.8	677.8	140.7	56.8	76.5	1,567.6
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	639.7	719.6	142.9	57.1	77.6	1,636.9
Net assets	33.0	19.5	44.6	34.9	(1.5)	130.5

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 £2.7 million (2015: £9.0 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

3.2.4 Investment risk: investment credit risk

This is the risk that arises from the sensitivity of the value of assets to changes in the level of credit spreads over the risk-free interest rate term structure. In addition we consider the concentration risk that arises from large investment in individual counterparties and single name exposures.

The Syndicate's investment portfolio is exposed to credit spread risk through its investment in debt instruments and other debt-like obligations issued by third parties, including governments, supra-national entities, banks and major corporate entities.

The Investment Guidelines specify limits to control the level of credit spread risk. This includes concentration limits that restrict individual counterparty exposures and limitations on the type, credit quality and maturity profile for investments. The IC monitors this exposure.

NOTES TO THE FINANCIAL STATEMENTS

3.2.4 Investment risk: investment credit risk (continued)

At 31 December 2016 the Syndicate held no material investment assets that were past due or impaired beyond their reported fair values (2015: none). During 2016 the Syndicate did not experience any defaults on financial assets (2015: none). With respect to its financial assets, the Syndicate uses ratings issued by agencies as follows:

As at 31 December 2016	AAA	AA	A	BBB	<BBB	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	-	-	9.1	-	-	19.8	28.9
Debt securities	176.0	278.3	197.2	141.5	21.0	19.2	833.2
Participation in investment pools	-	5.4	79.0	-	-	-	84.4
Overseas deposits as investments	70.2	22.2	11.8	7.0	-	19.2	130.4
Derivative assets	-	-	-	-	-	-	-
Reinsurers' share of claims outstanding	0.3	156.8	173.6	2.2	-	3.4	336.3
Reinsurance debtors	-	3.9	4.2	0.1	-	0.9	9.1
Cash at bank and in hand	-	-	22.8	-	-	-	22.8
Total credit risk	**246.5**	**466.6**	**497.7**	**150.8**	**21.0**	**62.5**	**1,445.1**

As at 31 December 2015	AAA	AA	A	BBB	<BBB	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**

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. These amount to £0.9m (2015: £0.9m). 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.

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 52% of the total
- Securities below A- rating: not to exceed 33% 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

The fixed income guidelines apply to all elements of the portfolio with the exception of the money market funds and 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 debt and high yield instruments, which may include sub-investment grade assets.

NOTES TO THE FINANCIAL STATEMENTS

3.2.4 Investment risk: investment credit risk (continued)

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.

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.

3.2.5 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.

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 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and unit trusts	8.5	20.4	-	28.9
Debt securities	6.0	827.2	-	833.2
Participation in investment pools	84.4	-	-	84.4
Derivative assets	-	-	-	-
Overseas deposits as investments	28.6	101.8	-	130.4
Total financial assets	127.5	949.4	-	1,076.9

31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and unit trusts	-	37.5	-	37.5
Debt securities	73.9	736.5	6.3	816.7
Derivative assets	-	-	-	-
Overseas deposits as investments	55.0	28.6	-	83.6
Total financial assets	128.9	802.6	6.3	937.8

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.

NOTES TO THE FINANCIAL STATEMENTS

3.2.6 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 syndicate'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.

3.2.7 Non-core risks

Non-core risks are those which NSL 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.

NOTES TO THE FINANCIAL STATEMENTS

3.3.2 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”).

The managing agent 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. 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. NSL 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 Syndicate. 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 Syndicate’s investment strategy, the liquidity of the new strategy was modelled. This modelling shows that under conservative assumptions c.50% (2015: c.50%) of the portfolio could be liquidated within 1 week, c.90% (2015: c.80%) within 3 months and 100% (c.100%) investment portfolio within 6 months.

NOTES TO THE FINANCIAL STATEMENTS

3.4 Liquidity risk (continued)

The below table shows a maturity analysis for the Syndicate's financial liabilities:

At 31 December 2016:

	0-1 year £m	1-3 years £m	3-5 years £m	> 5 years £m	Total £m
Technical provisions	464.1	504.2	213.4	213.0	1,394.7
Creditors	123.9	31.1	-	-	155.0
Total liabilities	588.0	535.3	213.4	213.0	1,549.7

At 31 December 2015:

	0-1 year £m	1-3 years £m	3-5 years £m	> 5 years £m	Total £m
Technical provisions	393.7	416.8	173.7	173.7	1,157.9
Creditors	68.4	0.9	-	-	69.3
Total liabilities	462.1	417.7	173.7	173.7	1,227.2

3.5 Operational risk

The managing agent 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 Audit and 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 compliance 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 the Syndicate
- 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 the Bribery Act
- Amendment to employment law under contract or statutory provision

To mitigate this risk NSL maintains a Compliance function, with responsibility for alerting the business to and advising on changes in regulatory compliance requirements, supporting the business in developing appropriate processes and controls to ensure compliance, and also for monitoring and challenging the effectiveness of compliance procedures. With coordination from the Compliance function, NSL maintains continuous dialogue with regulators and monitors regulatory and legislative developments.

Novae continues to develop and improve its management of conduct risk, including its responses to the relevant Lloyd's Minimum Standards and the Financial Conduct Authority's expectations, with particular regard to delegated underwriting.

Throughout 2016 the dedicated Conduct Risk Function has expanded the operation of specific conduct risk controls within the business, with focus on third party oversight.

NOTES TO THE FINANCIAL STATEMENTS

3.5.1 Operational risk: regulatory compliance and legal risk (continued)

A strong company focus on supporting technology has enabled greatly increased visibility and reporting capability on these third party operations.

The priorities for 2017 are in (i) further embedding of conduct risk principles and practice both internally and with Novae's business partners and (ii) increasing the quantity and quality of management information from outsourced underwriting operations, thus allowing more detailed oversight in respect this activity.

3.5.2 Operational risk: IT and Operations risks

IT availability: The smooth running of the business is largely dependent upon the availability and performance of its IT systems. In the event of IT services which support key business processes being unavailable, (e.g. due to an underlying system failure, or as the result of a cyber-attack) the Syndicate could for example, lose business or fail to meet its regulatory or legislative requirements. NSL operates a number of controls to mitigate these risks including the performance of proactive maintenance, agreeing performance SLA's for key systems and services, conducting periodic IT systems' resilience and scale reviews and having suitable disaster recovery plans in place for key systems.

Information security: NSL is committed to protection of the data and information it holds, including from cyber-attack threats. There are a number of controls in place to mitigate the risk of the unauthorised disclosure and/or modification, loss of access, or inappropriate use of information which could lead to financial and reputational damage. The controls include an information security policy and a suite of technical controls and physical access controls, which are updated in response to the evolving cyber threat landscape.

Business continuity: The Group 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.

Change management: The delivery failure of projects or change management can have significant implications for the business in terms of opportunity costs and misallocated 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.

Outsourcing: 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.

NOTES TO THE FINANCIAL STATEMENTS

3.5.3 Operational risk: key staff risk

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

3.6 Capital risk

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 requirement to meet Solvency II and Lloyd's capital requirement in respect of Syndicate 6129 apply at a member level and not at the syndicate level. The risk that capital resources are insufficient to meet regulatory requirements therefore lies at the member level. The member assets deposited at Lloyd's are held in trust and are known as Funds at Lloyd's ("FAL").

NOTES TO THE FINANCIAL STATEMENTS

4 Segmental analysis

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

2016	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Result before investment return £m
Direct insurance:						
Accident and health	15.8	14.3	(7.5)	(8.0)	(0.7)	(1.9)
Marine, aviation and transport	68.6	64.0	(41.0)	(24.2)	(0.9)	(2.1)
Fire and other damage	315.2	263.8	(137.4)	(108.7)	(23.5)	(5.8)
Third party liability	163.0	157.2	(101.6)	(60.8)	(9.1)	(14.3)
Motor (other classes)	8.6	6.3	(4.5)	(2.4)	(0.7)	(1.3)
Credit and suretyship	64.6	49.1	(31.1)	(17.4)	1.0	1.6
Miscellaneous	0.2	0.2	(0.1)	(0.1)	-	-
Direct insurances	636.0	554.9	(323.2)	(221.6)	(33.9)	(23.8)
Reinsurance acceptances	265.0	324.4	(208.4)	(101.2)	(46.1)	(31.3)
Total	901.0	879.3	(531.6)	(322.8)	(80.0)	(55.1)

2015	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Result before investment return £m
Direct insurance:						
Accident and health	6.1	4.6	(2.4)	(1.9)	(0.8)	(0.5)
Marine, aviation and transport	106.9	114.3	(59.7)	(40.0)	(5.0)	9.6
Fire and other damage	243.8	218.5	(97.6)	(90.7)	(17.9)	12.3
Third party liability	162.1	149.2	(81.1)	(46.6)	(5.7)	15.8
Motor (other classes)	8.3	11.4	(10.2)	(4.1)	2.1	(0.8)
Credit and suretyship	73.0	57.6	(26.2)	(20.3)	(7.9)	3.2
Miscellaneous	0.3	0.3	(0.3)	(0.1)	-	(0.1)
Direct insurances	600.5	555.9	(277.5)	(203.7)	(35.2)	39.5
Reinsurance acceptances	188.8	171.2	(54.1)	(54.2)	(33.1)	29.8
Total	789.3	727.1	(331.6)	(257.9)	(68.3)	69.3

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.

4 Segmental analysis (continued)

Geographical origin of direct insurance gross premiums written

An analysis of gross direct premiums written by reference to the location where the insurance contract was concluded:

	2016 **£m**	2015 £m
United Kingdom	**636.0**	600.5

The Lloyd's insurance market has been treated as one geographical segment. All business is signed and concluded in the United Kingdom.

5 Technical provisions

	2016			2015		
	Gross provisions £m	**Reinsurance assets £m**	**Net provisions £m**	Gross provisions £m	Reinsurance assets £m	Net provisions £m
Claims outstanding						
Balance at 1 January	**1,157.9**	**(284.3)**	**873.6**	1,162.5	(321.2)	841.3
Change in claims outstanding	**102.2**	**(21.5)**	**80.7**	(12.3)	39.2	26.9
Effect of movements in exchange rates	**134.6**	**(30.5)**	**104.1**	7.7	(2.3)	5.4
Balance at 31 December	**1,394.7**	**(336.3)**	**1,058.4**	1,157.9	(284.3)	873.6
Consisting of:						
Claims notified	**792.0**	**(214.0)**	**578.0**	671.9	(194.2)	477.7
Claims incurred but not reported	**602.7**	**(122.3)**	**480.4**	486.0	(90.1)	395.9
Balance at 31 December	**1,394.7**	**(336.3)**	**1,058.4**	1,157.9	(284.3)	873.6
Unearned premiums						
Balance at 1 January	**409.7**	**(38.4)**	**371.3**	338.1	(25.6)	312.5
Change in unearned premiums	**21.7**	**(33.4)**	**(11.7)**	62.2	(11.7)	50.6
Effect of movements in exchange rates	**56.3**	**(8.1)**	**48.2**	9.4	(1.1)	8.2
Balance at 31 December	**487.7**	**(79.9)**	**407.8**	409.7	(38.4)	371.3

The gross and net provisions at 31 December 2016 include margin held above actuarial best estimate of £55.5 million (2015: gross and net provisions included margin of £41.6 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 £448.0 million during the calendar year (2015: £308.2 million). This includes an amount of £33.1 million in respect of increases to reserves on 2014 and prior underwriting years (2015: £33.6 million in respect of reserve releases from 2013 and prior underwriting years).

7 Net operating expenses

	2016	2015 Restated
	£m	£m
Brokerage and commissions	**280.9**	233.2
Change in deferred acquisition costs	**(11.5)**	(19.1)
Administrative expenses	**44.4**	33.5
Personal expenses	**9.1**	10.0
Profit commission payable movement	**(0.1)**	0.3
	322.8	257.9

Average commission rates for direct insurance, as a proportion of gross premiums written in the year, amounted to 37.6% (2015 restated: 33.7%).

The total commission for direct insurance business accounted for in the year was £186.2 million (2015: £110.0 million).

Administrative expenses include:

	2016	2015
	£m	£m
Fees payable to the Syndicate’s auditor for the audit of the Syndicate	**0.3**	0.3
Fees payable to the Syndicate’s auditor for other services:	**-**	-
	0.3	0.3

NOTES TO THE FINANCIAL STATEMENTS

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.

	2016 £m	2015 £m
Wages and salaries	**28.0**	25.6
Profit-related remuneration	**12.0**	13.4
Social security costs	**3.4**	3.0
Pension costs	**3.5**	3.2
Other	**3.1**	2.7
	50.0	47.9

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

	2016 Number	2015 Number
Support	**176**	149
Underwriting	**124**	116
Claims and reinsurance	**55**	53
	355	318

9 Directors' emoluments

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

	2016 £m	2015 £m
Wages and salaries	**1.1**	1.3
Post-employment benefits	**0.2**	0.2
Other benefits	**-**	-
	1.3	1.5

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

NOTES TO THE FINANCIAL STATEMENTS

9 Directors’ emoluments (continued)

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

	2016 £m	2015 £m
Wages and salaries	**0.3**	0.3
Post-employment benefits	**-**	-
Other benefits	**-**	-
	0.3	0.3

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:

	2016 £m	2015 £m
Wages and salaries	**0.3**	0.3
Post-employment benefits	**-**	-
Other benefits	**-**	-
	0.3	0.3

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

	2016 £m	2015 £m
Income from investments	**16.4**	13.8
Gains on the realisation of investments	**12.1**	3.4
	28.5	17.2
Average syndicate funds available for investment during the year (original currency):		
Sterling (including converted minor currencies)	**290.1**	341.2
Australian dollar	**146.6**	107.4
Euro	**172.7**	161.6
US dollar	**623.6**	491.8
Canadian dollar	**121.9**	171.3
Combined sterling	**1,042.2**	920.3
Aggregate investment return for the calendar year	**21.0**	4.8

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

NOTES TO THE FINANCIAL STATEMENTS

11 Investment income (continued)

	2016	2015
Calendar year investment yield:		
Sterling (including converted minor currencies)	**3.5%**	0.0%
Australian dollar	**1.4%**	2.6%
Euro	**1.0%**	0.8%
US dollar	**1.6%**	0.4%
Canadian dollar	**0.9%**	1.2%
Combined sterling	**2.0%**	0.5%

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

	2016 £m	2015 £m
Investment management expenses	**1.1**	0.9
Losses on realisation of investments	**5.9**	6.3
	7.0	7.2

13 Financial investments

	Market value		Cost	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Other shares and variable yield securities	**28.9**	37.4	**26.2**	39.4
Debt securities and other fixed income securities	**833.3**	816.7	**837.4**	816.1
Participation in investment pools	**84.5**	-	**84.5**	-
Overseas deposits	**130.2**	83.7	**130.2**	83.7
	1,076.9	937.8	**1,078.3**	939.2

Overseas deposits is comprised of £111.2m of debt funds and £19.0m of money market funds.

14 Debtors arising out of direct insurance operations

	2016 £m	2015 £m
Amounts due from intermediaries:		
Due within one year	**178.1**	174.5
Due after one year	**0.3**	0.2
	178.4	174.7

NOTES TO THE FINANCIAL STATEMENTS

15 Debtors arising out of reinsurance operations

	2016 £m	2015 £m
Due within one year	**186.9**	158.6
Due after one year	**0.1**	0.1
	187.0	158.7

16 Other debtors

	2016 £m	2015 £m
Amounts due from Novae group companies	**3.4**	1.5
Overseas tax	**0.3**	0.2
	3.7	1.7

All are due within one year (2015: all due within one year)

17 Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and in hand	**22.8**	32.3
Deposits with credit institutions	**92.5**	70.2
Total cash and cash equivalents	**115.3**	102.5

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.

18 Other assets - other

	2016 £m	2015 £m
Collateralised letter of credit	**2.0**	1.8

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

19 Deferred acquisition costs

	2016 £m	2015 Restated £m
Balance at beginning of the year	**121.6**	100.4
Utilisation of balance brought forward	**(97.0)**	(91.4)
Additional amounts deferred in year	**122.2**	112.6
Balance at end of the year	**146.8**	121.6

NOTES TO THE FINANCIAL STATEMENTS

20 Reconciliation of members' balances

	2016 £m	2015 £m
Members' balances brought forward at 1 January	**147.7**	126.9
Impact of restatement	**(17.2)**	(14.2)
Restated members' balances brought forward at 1 January	**130.5**	112.7
Total recognised gains since last annual report	**(23.5)**	71.7
Transfers to members' personal reserve funds	**(89.8)**	(53.9)
Members' balances carried forward at 31 December	**17.2**	130.5

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.

21 Creditors arising out of direct insurance operations

	2016 £m	2015 £m
Amounts due from intermediaries:		
Due within one year	**50.8**	24.2
Due after one year	**0.2**	0.2
	51.0	24.4

22 Creditors arising out of reinsurance operations

	2016 £m	2015 £m
Due within one year	**55.4**	29.0
Due after one year	**30.7**	-
	86.1	29.0

23 Other creditors

	2016 £m	2015 £m
Amounts due to Novae group companies	**12.1**	14.1

Of this amount £0.2 million is due after one year (2015: £0.9 million)

NOTES TO THE FINANCIAL STATEMENTS

24 Related parties

Directors' interests in other Novae group companies

The ultimate parent company of NSL is Novae Group plc ("NGP"). Consolidated financial statements 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 ("NCUL"), a corporate member of Lloyd's and the principal capital provider to Syndicate 2007, and Novae Underwriting Limited ("NUL").

Details of NSL directors, who were also directors of other relevant Novae companies at any time between 1 January 2014 and 31 December 2016, are shown below:

Novae Group plc

J R Adams	resigned from NGP 31 December 2014; resigned from NSL 17 March 2015
L P Adams	resigned from NSL 31 December 2015
Sir Bryan Carsberg	resigned from NGP and NSL 31 December 2015
R D C Henderson	resigned from NGP and NSL 31 December 2015
M C Phibbs	resigned from NSL 31 December 2015
D J Pye	resigned from NGP 1 March 2016

Novae Corporate Underwriting Limited

J R Adams	resigned from NSL 17 March 2015; resigned from NCUL 23 March 2015
M A Hudson	resigned from NCUL 31 December 2014; resigned from NSL 9 September 2016

Novae Underwriting Limited

J R Adams	resigned from NSL 17 March 2015; resigned from NUL 30 April 2015
J L J Butcher	appointed to NUL 23 June 2015
M A Hudson	resigned from NUL and NSL 9 September 2016

The interests of current NSL directors and persons connected with them in the share capital of Novae Group plc as at 31 December 2016 amounted to 0.7% (2015: 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 the Syndicate. During the period under review, Tyser introduced £25.6m of business to the Syndicate (2015: £15.6m).

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 the Syndicate in 2016 totalled £163,833 (2015: £95,421).

NOTES TO THE FINANCIAL STATEMENTS

24 Related parties (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 the Syndicate in 2015 totalled £8,082 (2015: £16,346).

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 the Syndicate in 2016 totalled £51,284 (2015: £356,620).

(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. No commissions were retained by NUL on this business.

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 2014 years of account, with the balance being provided by two direct corporate member participants on a limited tenure basis. Novae Group plc ("Novae") provides 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 £78.2 million (2015: £66.3 million) were recharged to and retained by Syndicate 2007 from NML during the year. At 31 December 2016, an amount of £3.4 million (2015: £3.8 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.

NOTES TO THE FINANCIAL STATEMENTS

25 Post balance sheet events

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

	2016 **£m**	2015 £m
2014 closing year of account	**30.5**	-
2013 closing year of account	**-**	90.3
	30.5	90.3

On 27 February 2017, the Ministry of Justice announced the outcome of its review of the discount rate used to settle personal injury claims ("the Ogden rate"). In preparation for this, NSL had undertaken a detailed assessment of the impact of different Ogden rates on the Syndicate's net reserves. The revised Ogden rate of minus 0.75% has resulted in an additional 6.1 percentage points on the combined ratio.