

June 22, 2009

Novae - Syndicate 2007

Primary Credit Analyst:

Eoin Naughton, London (44) 20-7176-7047; eoin_naughton@standardandpoors.com

Secondary Credit Analyst:

Kevin Willis, London (44) 20-7176-7085; kevin_willis@standardandpoors.com

Table Of Contents

Lloyd's Syndicate Assessment

Financial Strength Ratings And Lloyd's Syndicate Assessments

Major Assessment Factors

Rationale

Outlook

Syndicate Profile: Diverse Syndicate, With Key Niche Franchises

Competitive Position: Good, Reflecting A Well-Diversified Syndicate With Core Strengths

Management And Corporate Strategy: Rational Strategy And Significant Progress Made On Discontinued Business

Enterprise Risk Management: Adequate, With Shifting Focus Toward Strategic Management

Accounting: Capitalization Assessed On Group Financials

Operating Performance: Good Results Overall, Although Potential Liability Exposures In The Near Term

Table Of Contents (cont.)

Investments: Conservative, But Increasing Willingness To Assume Credit Risk

Liquidity: Considered Adequate To Cover Potential Strains

Capitalization: Good Capital Adequacy Of Novae Group

Financial Flexibility: Limited Requirement; Main Source Of Flexibility Is Group Resources

Novae - Syndicate 2007

Lloyd's Syndicate Assessment

3-/Stable (average dependency)

Financial Strength Rating

None

Financial Strength Ratings And Lloyd's Syndicate Assessments

Standard & Poor's Ratings Services' insurer financial strength rating on Lloyd's (Lloyd's or the Market; A+/Stable) remains the primary indicator of the level of financial security that is afforded to a policyholder of any syndicate trading in the Lloyd's Market.

Lloyd's Syndicate Assessments (LSAs) evaluate, on a scale of '1' (very high dependency) to '5' (very low dependency), the extent of a given syndicate's dependence on the rating on the Lloyd's Market.

Major Assessment Factors

Strengths:

- Good operating performance
- Good competitive position within Lloyd's, reflecting key areas of specialism
- Good capitalization of the Novae Group

Weaknesses:

- Above-average exposure to losses in economically sensitive lines
- Reduced, but still relevant, drag from discontinued business

Rationale

The assessment on Novae Syndicates Ltd. - Syndicate 2007 (Novae, or the Syndicate) reflects its good operating performance, which in turn reflects the syndicate's diversified nature and its ability to source profitable business through its key lines. In addition, the main capital provider and owner of the managing agent, Novae Group PLC (Novae Group or the group) has good capitalization, reflecting its good risk-adjusted capital adequacy. These strengths are offset by the syndicate's potential exposure to increased loss frequency and severity in lines affected by the recent financial turmoil. In addition, the syndicate continues to have a material, although reducing, exposure to its discontinued business.

The syndicate has demonstrated good operating performance in recent years, in excess of similarly assessed peers. The combined ratio for 2008 showed some deterioration to 97% (92% in 2007), reflecting some large losses, in particular those relating to hurricanes Gustav and Ike. Again, the losses on these catastrophic events were within tolerances and the syndicate reported an underwriting profit for the year.

The syndicate has a good competitive position at Lloyd's, based on its diversified offering of various business lines, as well as niche strengths in certain lines. The syndicate has a good lead position, being the lead on the majority of its core specialty risks. This lead position gives the syndicate market visibility, and a greater ability to influence

pricing. The syndicate's lead position gives it high client retention rates.

Novae Group has good capitalization, based on the group's good capital adequacy. As a result of previous capital raisings and profit retention, Standard & Poor's Ratings Services views the group's capitalization to be supportive of current and expected requirements. We also consider that the capitalization provides a buffer against a decline in operating performance that could result from the deteriorating economic environment. In addition, the group's capital strength provides insulation against deterioration in reserves relating to discontinued business.

While operating performance in recent years has been good, the syndicate writes a number of lines which are exposed to the recent financial turmoil to varying degrees. Financial institutions and liability books, where the nature of risks assumed could lead to an increase in claims frequency and severity, are particularly exposed. While there is limited indication to date that losses in the most affected classes will rise materially, Novae's above-average exposure to these classes does produce an increased element of uncertainty with regard to future operating performance. These concerns are allayed to some degree by the reinsurance protection on these lines and the risk controls in place.

The syndicate and group continue to have material reserves relating to discontinued business, in particular financial institution and U.S. casualty claims. These exposures have caused a drag on the group's performance, and have tended to deteriorate. Following the continued run-off of the book, and some significant commutations, the exposures have declined, but remain significant. However, Standard & Poor's believes that the threat to the group posed by these unsettled claims has declined. While there remains the scope for deterioration, should this occur, we expect this to be more modest than seen previously and unlikely to represent a significant challenge to the ongoing continuity of the syndicate. In addition, concerns regarding the discontinued business are offset by the group's good capital adequacy.

Outlook

The stable outlook reflects Standard & Poor's view that the syndicate will maintain its good operating performance and competitive position. We anticipate that operating performance will show some deterioration as a result of increased claims resulting from a deteriorating macroeconomic environment, but that the syndicate will continue to produce results in line with similarly assessed peers. In addition, we anticipate that the group will continue to manage down its discontinued business, and that this will not lead to earnings that are materially lower than we expect. The syndicate is likely to maintain its good competitive position within Lloyd's, demonstrated by continued high client retention and leadership in its key lines.

Pressure on the assessment would arise if earnings deteriorate significantly below expectations as a result of increased loss experience in either the ongoing or discontinued business lines. Positive movement in the assessment would be dependent on continued outperformance of similarly assessed peers, and significant progress toward finality on the discontinued book.

Syndicate Profile: Diverse Syndicate, With Key Niche Franchises

For 2007, Novae Syndicates Ltd. (NSL), the managing agency of the group, merged Novae – Syndicate 2147 and Novae – Syndicate 1007 into a single syndicate: Novae - Syndicate 2007. As Novae Group supports run-off Syndicate 1241, we factor the impact of this into the assessment on Syndicate 2007. The LSA does not apply to

Syndicate 1241, however. In particular, the effect of the run-off syndicate is assessed through our analysis of capitalization. The syndicate merger resulted in a number of operational savings being recognized, including reducing the administrative burden of maintaining two syndicates and increasing the fungibility of capital between lines of business previously in different syndicates.

Novae Group PLC

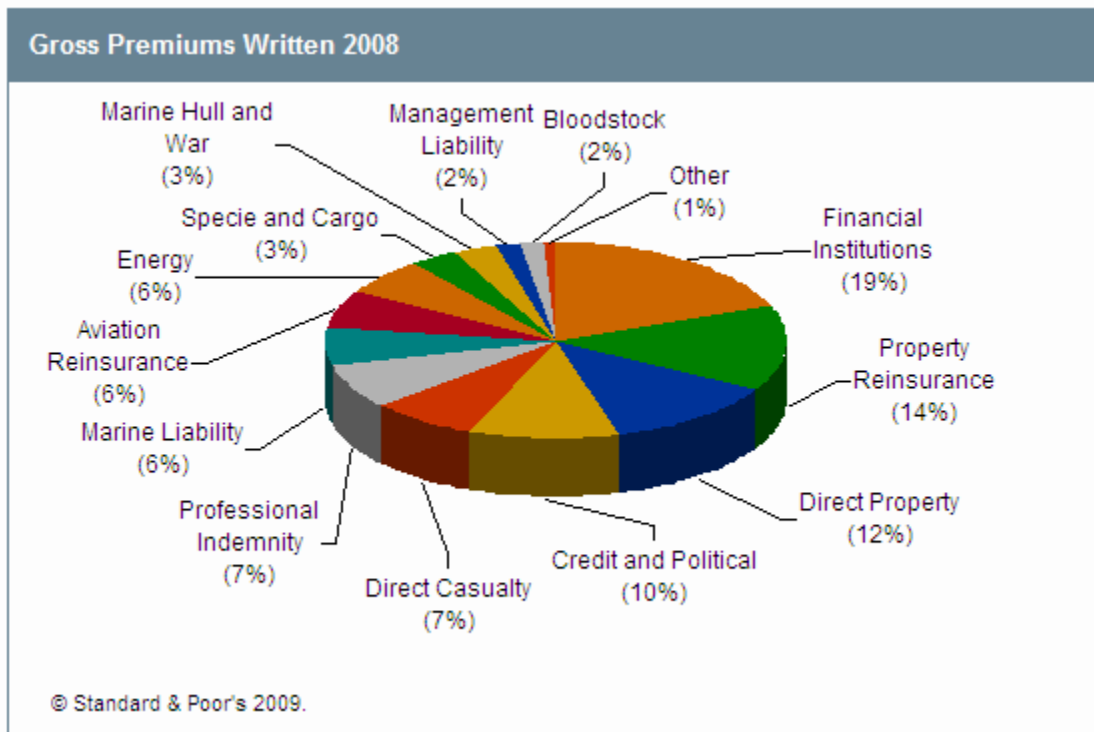
Novae is a London Stock Exchange-listed company and is the holding company for the group. Novae Corporate Underwriting Ltd. is the active, wholly owned Lloyd's corporate member that controls 94% of capacity for the 2009 year of account.

Novae Insurance Co. Ltd. (NACL) is a wholly owned subsidiary of Novae formed in 2006. It writes specialty business previously written into Syndicate 2147 by Novae Underwriting Ltd. (NUL), a wholly owned service company, as well as providing an alternative platform for some lines of business as appropriate.

Novae – Syndicate 2007

The ongoing syndicate 2007 writes a diversified book of risks, with its key lines being financial institutions, property reinsurance, property insurance, and credit and political risks (see chart 1 for a full breakdown of the syndicate's 2008 gross premiums written (GPW))

Chart



Competitive Position: Good, Reflecting A Well-Diversified Syndicate With Core Strengths

Standard & Poor's regards the competitive position of syndicate 2007 as good. With GPW of £306 million for

2008, the syndicate is midsize at Lloyd's, but we consider its competitive position to be good by virtue of its strong position in its key lines, for example, through its financial institutions book. In addition, the syndicate is well diversified; while it continues to have a focus on liability business, it writes in a number of shorter-tail lines.

Premiums for 2008 showed a modest increase, with GPW increasing to £306 million from £284 million, following flat premium levels in the previous year. This reflects a competitive pricing environment in many lines, in particular liability. The increase in premiums reflects some declines in lines where the syndicate has reduced its offering as pricing becomes too competitive, as well as increases in some lines and the new bloodstock book (insuring horses). Like its Lloyd's peers, the syndicate benefits from Lloyd's strong competitive position through the rating, access to brokers, and international licenses, giving the syndicate access to a wide spread, both geographically and by type of risk. Management have been effective in maintaining the syndicate's competitive position in core lines in spite of any potential degradation of the franchise resulting from the financial stress experienced 1999-2004.

The syndicate's competitive position is enhanced by its ability and willingness to lead some of its key business lines, giving it increased control over pricing and management of risk. In particular, the syndicate has significant lead positions in its largest specialty lines, leading around two-thirds of business in Financial Institutions and International Casualty. Property Reinsurance is the syndicate's second-largest business unit; in this area the syndicate has a more limited lead position.

The existence of NACL gives the group the ability to source business into different platforms, as such business which does not require the particular benefits of Lloyd's is sourced into NACL.

Prospectively, Standard & Poor's expects that the syndicate's good competitive position will be maintained, with the syndicate retaining business it wishes to retain, and that it will continue to demonstrate and benefit from a significant lead position in its key lines. Changes in premium and business mix will reflect prevailing rate movements. As such, Standard & Poor's considers the syndicate is likely to increase its property exposure as rates improve after the loss experience of 2007, but growth in liability classes will be more limited. We anticipate that the syndicate will act opportunistically in sourcing new lines and underwriters; the syndicate will add diversified classes where the appropriate underwriters can be sourced and the business will be sufficiently profitable. More fundamental change in the group's competitive position will also be opportunistic.

The group's increase in capacity ownership for the 2008 year of account will give it increased flexibility with regard to the choice of platform (syndicate or NACL) for risks. This is likely to lead to a gradual movement of smaller risks currently written by the syndicate to NACL, although Standard & Poor's does not expect this to lead to any diminution of the syndicate's competitive position.

Management And Corporate Strategy: Rational Strategy And Significant Progress Made On Discontinued Business

Standard & Poor's views the current management team's actions as positive for the syndicate assessment. This is due to the strategy's success to date in managing the legacy issues inherited, while maintaining a focus on risk management and underwriting discipline in the ongoing business. Increasingly, the executive team is focusing on the prospective strategy and direction of the syndicate, with a number of positive enhancements to the group's business model.

The executive members of both the group and syndicate boards have a strongly aligned strategy in place to achieve the key aim of being a profitable insurance risk carrier. Novae takes a very conservative stance within this structure, and has a limited tolerance for noninsurance risk. As such, the syndicate has low investment risk tolerance, a strategy which served it well during 2008. Strategy is aligned with risk-reward trade offs, as such it is likely the syndicate's financial risk tolerance will increase during 2009 (see the Investments section).

The group is expected to remain focused on liability business, with the long-term strategy to have two-thirds liability to one-third property, although maintaining flexibility within this to reflect market conditions. Standard & Poor's believes this strategy is rational and reflects the company's key strengths. The syndicate retains a willingness to accept catastrophe exposed business, managing this through its willingness to lose framework (see the Enterprise Risk Management section). While the syndicate utilizes reinsurance to mitigate the impact of catastrophic losses, these risks can still lead to earnings volatility.

Given the risk profile and tolerance of the syndicate, it has placed strong emphasis on the modeling and control of insurance risk, with enterprise risk management (ERM) a focus of the executive team. ERM processes, in particular the Individual Capital Assessment (ICA) process, are embedded within the operations of the syndicate, with the stochastic models, scenario stress tests, and sensitivity analysis used to steer the business planning process. Acceptance of business is dependent on pricing exceeding a hurdle rate based on the group's weighted average cost of capital. To ensure compliance, this is monitored, and underwriter remuneration is based on risk-adjusted returns with respect to the cost of capital.

The group believes that it currently has more than sufficient capital for its current business, and has shown the willingness to take action to utilize this perceived excess more effectively. As such, in January 2009, the group approached Chaucer Holdings PLC (Chaucer; not rated) to propose an all share merger. Discussions were terminated following due diligence in February 2009. Standard & Poor's views the approach as opportunistic, and the group's willingness to walk away from the transaction demonstrates management's focus on its current strategy. However, the group is likely to remain willing to pursue inorganic growth should the appropriate opportunity arise. Should this occur, the assessment of the syndicate may be affected.

Progress continues to be made in reducing the magnitude of the discontinued business unit. This unit is actively managed, with significant resource available to fulfill the target of reducing the legacy exposure the current management inherited. Natural run-off of the portfolio, in addition to significant commutations has resulted in reduced legacy exposure, and reduced the number of outstanding claims significantly, although the overall legacy asset remains significant, at approximately one-quarter of gross assets. Standard & Poor's review of the discontinued unit indicates that the risk to capital embedded in this unit has diminished, but there remains residual reserving risk within the unit. Management has been pro-active in managing down this exposure in-house, and remains willing to accept a third-party solution to give finality. Standard & Poor's would consider finality of the discontinued business to be positive for the group and hence the syndicate assessment.

Enterprise Risk Management: Adequate, With Shifting Focus Toward Strategic Management

We view ERM as adequate, with notable strengths within risk culture and underwriting controls. Syndicate 2007 has made significant developments in strategic risk management in recent years as management focus has shifted toward the prospective direction of the syndicate, rather than control of the legacy issues. The syndicate's largest

risks relate to insurance underwriting and reserving and operational risk. ERM is considered of moderate importance to the assessment, reflecting the number of diverse risks written and the exposure to potentially volatile lines, offset by the group's relatively straightforward structure.

Underwriting risk controls are considered strong. Underwriters have clearly defined limits linked to the underwriting procedures. An underwriting review director is tasked with maintaining the controls and processes around insurance underwriting. In addition, the syndicate has adequate controls on catastrophic risks. Catastrophic risk is based on the group's "willingness to lose" (WTL) framework; these WTL limits are monitored and amended to reflect changes in perceived risk and pricing. Performance of the underwriting controls on catastrophe risks performed well during 2008--losses from hurricanes Ike and Gustav remained comfortably within the group's WTL framework.

Novae continues to increase its in-house actuarial resources, thereby enabling the actuarial team to provide more input to both underwriting and overall risk management, in addition to the more traditional reserving-related processes.

The syndicate has adequate operational risk controls, price monitoring, and control environment over the past five years, and we now consider them effective in controlling underwriting exposures, and positive for the assessment.

The syndicate is developing its strategic risk management functions. Strategic risk management (SRM) is being increasingly absorbed into the day-to-day operations of the syndicate, particularly through the use of risk-adjusted capital requirements to determine underwriting decisions. The role of SRM is increasing at a syndicate/group level, through increased development of the ICA model, which is being used increasingly to make decisions beyond individual underwriting decisions--the model is increasingly being built into the reinsurance purchasing decision making process. Further development of modeling capability and increasing use of risk-adjusted return metrics throughout the business could lead to improvement in the assessment of ERM.

Accounting: Capitalization Assessed On Group Financials

To assess capital adequacy of the syndicate, we analyze the capital adequacy of the main capital provider, Novae Group PLC. As such, our analysis of capital adequacy is based on the reported numbers, presented under International Financial Reporting Standards, of Novae Group. Other aspects of our analysis are based on syndicate accounts, which are prepared under U.K. generally accepted accounting principles.

Financial metrics presented in this report are based on the syndicate accounts. As syndicate 2007 was formed for the 2007 year of account, financial metrics for 2008 and 2007 reflect the full, ongoing operations of the syndicate.

As a result of Standard & Poor's analysis, a deduction from total adjusted capital is made to represent potential deficiency in the group's reserves. In addition, capital charges relating to reserving risk have been increased to reflect our view of the required reserve levels. The impact of these adjustments is discussed in more detail in the capitalization section.

Operating Performance: Good Results Overall, Although Potential Liability Exposures In The Near Term

Syndicate earnings are good, and compare favorably to similarly assessed peers in the Lloyd's market. Performance

deteriorated in 2008, demonstrated by an increase in the combined ratio to 97% from 92%. This reflects about 10 percentage points of losses relating to U.S. hurricane losses. This represents underperformance of the Lloyd's market as a whole, although the syndicate had significantly lower prior-year improvement than the market average; accident-year performance was broadly in line. Performance in 2008 was negatively affected by a loss of approximately \$40 million on hurricanes Gustav and Ike. The loss was within expectations for events of this magnitude and well within the syndicate's risk tolerance.

Novae writes several lines, which are potentially exposed to a deteriorating economy--the financial institutions book, the syndicate's largest, could see an increase in claims arising directly from the recent financial turmoil. Other liability lines could see an increase in claims frequency and severity from an economic slowdown. To date, the syndicate has not seen significant loss activity on the financial institutions book. At year-end 2008, three subprime reserves were held, with a further 10 notifications received, and there is significant reinsurance protection on this account. However, the magnitude of the ongoing economic turbulence could lead to a material increase in losses, particularly from the financial institutions book, and represent a material uncertainty, and hence a potential risk to the syndicate. However, the re-underwriting of the book away from U.S. Errors & Omissions and Directors & Officers, and the significant reinsurance protection in place mean that Standard & Poor's does not expect any increase in claims to mirror the experience of 1999-2002; losses in these books would reduce earnings, but are not anticipated to affect group capital materially.

Standard & Poor's anticipates that operating performance will remain good, although an increase in economically exposed lines could lead to some deterioration in performance. In addition, the syndicate remains exposed to volatility in earnings emerging from catastrophe exposed lines, such as property and aviation reinsurance. Bottom-line results are likely to show more significant deterioration, as yields on highly rated debt securities fall.

Investments: Conservative, But Increasing Willingness To Assume Credit Risk

Supporting the stated strategy of minimizing noninsurance risk, investment allocation has typically been extremely conservative, with the bulk of invested assets being held in sovereign debt, cash, and money market funds. In addition, the group has a weighting toward shorter dated investments. This led to a strong investment return for 2008. Given the reduction in interest rates and hence yields on short-dated bonds, the group has decided to increase their allocation to highly rated corporate bonds, and to increase the weighted average duration to a maximum of three years, from two years. Within these guidelines, there are stringent limits on individual counterparties at each rating level. This change in strategy will allow the syndicate to improve its investment return compared to the return available under its previous allocation policy. While this will bring an increase in credit and market risk, this will be modest. We believe this will be maintainable within the group's capital resources.

Liquidity: Considered Adequate To Cover Potential Strains

We consider the liquidity of the syndicate good. It fully reflects the Lloyd's membership requirements for funds to be readily liquid.

The Novae finance committee reviews, and stress tests, the detailed cash flow performance at the syndicate level monthly, and the cash position is considered adequate to cover any potential cash strain from U.S. Situs funding or other large liquidity stresses. Although the syndicate does not have contingent liquidity facilities, there are significant

liquid assets at a group level to fund immediate liquidity requirements. In addition, it has lower exposure to U.S. Situs requirements than some peers.

Capitalization: Good Capital Adequacy Of Novae Group

Standard & Poor's views the group's capitalization as good, based on good capital adequacy at the group. The adequacy of the capital available to the syndicate is largely a function of the capital adequacy of their principal backer, Novae.

Novae has taken action to lower the cost of capital, which was previously inflated due to the use of letters of credit (LOCs). During 2007, the weighted-average cost of capital was reduced following the refinancing of the LOC capital provision.

The group has recently bought back approximately £30 million of its subordinated notes issued in 2007. These were bought back at a significant discount to par. This reflects the group's view of capital requirements, and the opportunity to take a gain on the cancellation of this debt

Reinsurance

We consider the current reinsurance program appropriate for the syndicate's desired risk appetite. It is governed by the risk strategy and control of the WTL limits.

The current reinsurance protection is placed with reinsurers rated 'A' or higher, and is designed to cap losses at the WTL levels. NSL's maximum WTL for defined property catastrophe events is £54 million (15% of 2009 capacity), although the WTL for most of the syndicate's risk portfolio are lower. This has increased for 2009, mainly as a result of the depreciation of sterling against the dollar, rather than an increase in risk tolerance.

Reserves

Reserves are set at syndicate level by the Novae reserving committee at actuarial best estimates, and reviewed regularly by KPMG. Ongoing (that is, not relating to the discontinued business unit) reserves have proven to be sufficient, although the syndicate has not benefitted from significant previous-year reserve releases, unlike some peers. In addition, initial reserves on catastrophic losses appear to be robust, as evidenced by losses on hurricanes Gustav and Ike improving from initial estimates. The long-tail nature of some of the syndicate's liability classes increases reserving uncertainty. This is particularly the case for recent years on the financial institutions book. As such, we have stressed reserves to account for a possible rise in claims emanating from this book.

Discontinued business unit

Novae took the decision in 2004 to establish a specialist unit to handle the run-off of legacy issues. NSL has been notably proactive in establishing adequate reserves for the liability reinsurance business by undertaking reviews of cedents to establish ground-up case reserves. Following the deployment of significant resources to resolve the problems of these run-off reserves, Novae has improved its reserve position, and has achieved greater certainty over the likely range of final exposure.

Financial Flexibility: Limited Requirement; Main Source Of Flexibility Is Group Resources

The principal sources of financial flexibility to the syndicate are the group and additional reinsurance. Novae is

listed on the London Stock Exchange, which offers it some additional financial flexibility. However, the group's shares have recently traded at a greater discount to some peers, which may indicate lower investor appetite for equity capital raising. That said, Standard & Poor's notes that Novae has been successful in raising both debt and equity capital to strengthen its capital base, and we do not expect future funding to be required over the next two to three years.

Table

Novae - Syndicate 2007 Selected Financial Statistics		
	2008	2007
Analysis of underwriting (Mil. £)		
Gross premiums written	306.4	285.0
Net premiums written	218.3	209.3
Analysis of operating performance		
Combined ratio	97.0	91.7
Loss ratio	58.0	51.1
Expense ratio	39.0	40.6
Return on revenue	7.8	13.6
Analysis of reinsurance ceded		
Premium retention ratio	71.2	73.4
Loss retention ratio	65.1	80.0
Analysis of reserves		
Reserves/net premiums written	198.8	157.2
Analysis of investments and liquidity		
Receivables ratio	24.5	30.4
Investment yield	4.1	N.A.

Ratings Detail (As Of June 22, 2009)*	
Novae - Syndicate 2007	
Holding Company	None
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

Additional Contact:
Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: research_request@standardandpoors.com.