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NAVIGATORS
UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1
at LLOYD'S

Syndicate Annual Accounts
31st December 2016

Directors and administration

MANAGING AGENT:

Managing Agent
Navigators Underwriting Agency Limited

Directors
C L Bach III
H C Bassett*
S R Coward
C M DeFalco*
S A Galanski*
G E Johnson*
C D Short*
C D Sprott
M J Sullivan*
M J Casella* (appointed 25 August 2016)
P J Davenport (appointed 9 August 2016)

* Non-executive

Company Secretary
A J Zobel

Managing Agent's registered office
7-8th Floor, 6 Bevis Marks,
London,
EC3A 7BA

Managing Agent's registered number
1380715

Active underwriter
C D Sprott

Bankers
Citibank N.A., HSBC, Royal Bank of Canada

Investment managers
NEAM

Registered auditor
KPMG LLP, London

Solicitor
Norton Rose Fulbright LLP, London

Strategic Report of the Directors of the Managing Agent

Principal activity

The principal activity of the business remains the transaction of general insurance and reinsurance business in the United Kingdom.

The capacity for the Syndicate in 2016, 2015, and 2014 was £255m, £220m, and £215m respectively. The Syndicate capacity is gross premium net of commissions and is calculated using Lloyd's Syndicate business forecast rates of exchange. Gross written premium in the technical account is calculated at average rates of exchange.

Market Review and Strategy

Despite disappointing underwriting results for the Syndicate, driven largely from loss activity within the North American Property business, 2016 marked a year of significant progress across a number of major initiatives.

In 2016, the London insurance market continued to face significant challenges from over capacity and growth of competing local and regional hubs. Distribution was further disrupted by the ever-increasing use of broker-underwriter facilities and panels, which result in the commoditization of the 'following' component of underwriting in a subscription market.

Our strategic priorities in 2016 were centred around underwriting profitability, expanding our distribution channels, and the creation of operational efficiencies whilst focusing on managing operating expense. Below is a summary of our core underwriting divisions.

Marine

The market for our Marine lines of business remained very competitive in 2016, with the results reflecting a continued focus on risk selection and underwriting discipline as underwriters remained focused on profitable business rather than top line growth.

Our strategy to expand our marine product lines into Continental Europe continued to see progress as the teams in both Rotterdam and Milan grew their portfolios through the quality of our people, specialist expertise and service levels. 2016 also saw the successful launch and growth of a Political Violence and Terrorism initiative.

NavTech

Our global energy business continued to be impacted by depressed oil and gas prices which have led clients to significantly reduce their activities and capital expenditure. Despite this, the market remains extremely competitive with new entrants having entered the market in 2016 creating additional pressure on rates. The underwriting team stayed focused on the quality of their underwriting and diligent portfolio management with results helped by the absence of any significant catastrophe events affecting the portfolio.

During the course of 2016, the North American Property business was placed under review as a result of loss activity which significantly exceeded our expectations. After completion of this review, the decision was made to exit the North American Property class of business written within the Syndicate. As a result, with effect from January 1 2017 we entered into a reinsurance arrangement to cede 100% of the unearned premium on the North American Property business underwritten at Lloyd's to Vibe Syndicate Management Limited ("Vibe"). All losses on this class of business arising after the effective date will be reinsured by Vibe.

Strategic Report of the Directors of the Managing Agent (continued)

NavPro

The Errors and Omissions (E&O) team saw a significant increase in revenue in 2016, led by the London team, despite market conditions remaining competitive. This growth stemmed largely from the successful execution of new business initiatives in recent years.

The market for International Commercial Directors & Officers Liability (D&O) remained challenging, driven by further rate reduction and more new entrants into the sector, despite increased claims activity. The market continues to see premium shifted out of the market and into broker panels and facilities. As a result, growth ambitions were tempered and the focus remained on portfolio management and underwriting profitability.

The NavPro team successfully launched their initiative to expand into Financial Institutions Professional Liability & Crime, with the team building out its product suite and gaining traction and credibility in the market.

Performance and Measurement

The Syndicate's key financial performance indicators during the year were as follows:

	2016	2015	%
	£000	£000	
Gross premiums written	339,893	272,476	24.74%
Net premiums written	246,929	186,513	32.39%
Net earned premiums	221,000	170,081	29.94%
Net operating expenses	86,188	64,223	34.20%
Investment income	6,479	5,026	28.91%
Combined Ratio	99.84%	84.38%	

Note: The combined ratio is the ratio of net claims incurred plus net operating expenses to net premiums earned and excludes foreign exchange. A lower combined ratio represents better performance.

Gross written premium has increased by 24.74%. Increased premium income from International Casualty, Political Violence and Terrorism and strong growth on our NavPro lines has been offset by falls in premium income on the NavTech lines due to depressed oil prices and rate decreases.

Net written premium and net earned premium have increased by 32.39% and 29.94% respectively. This is largely due to the decision to decrease some of the quota share treaties on the 2016 year of account, especially the Energy and Consortium quota shares, and the cancellation of the Casualty quota share from 1st May 2016.

Net operating expenses are 34.20% higher than in 2015. This is partly due to an increase in administration expenses including increased Lloyd's charges as well as an increase in acquisition costs in line with increased premium income.

Investment income, which excludes unrealized gains and losses has increased by 28.91% on the prior year; total investment return has increased by 54.6% from £2.3m in 2015 to £3.5m in 2016. This was due to increased investment income of £1.4m in 2016, and a net increase in unrealized losses and investment expenses of £0.2m in 2016.

Strategic Report of the Directors of the Managing Agent (continued)

The Syndicate's combined ratio has deteriorated from 84.38% to 99.84% in 2016, which is due to an increase in net claims incurred and also an increase in operating expenses.

Profits on Ordinary Activities before Tax

The profit for calendar year 2016 is £12.0m (2015: £25.6m). This includes underwriting profit of £0.9m (2015: £27.0m), investment return of £3.5m (2015: £2.3m) and net operating expenses of £86.2m (2015: £64.2m).

Member's Funds

The member's funds are £145.5m (2015: £119.1m). This is due to an increase in total comprehensive income of £33.8m (2015: £31.4m) and a net distribution to the corporate vehicle of £7.0m (2015: £11.8m).

Principal risks and uncertainties

The Managing Agent has established a robust enterprise-wide risk management framework to identify, assess and manage the risks it faces. The framework ensures that risks are proactively managed using a number of risk management techniques, which helps assess threats to objectives.

The Board reviews risk appetite annually as part of the Syndicate's business planning, capital setting process and as an element of its risk management framework. The Board has identified the principal risks facing the Syndicate and established documented strategies for their assessment, mitigation and monitoring. A Risk and Compliance Committee, which is a sub-committee of the Board, meets regularly to assess the effectiveness of the risk management framework and level of risk against appetite.

The Managing Agent has a Chief Risk Officer, with responsibilities for owning and developing the Managing Agent's Risk Management Framework and its supporting methodologies and tools, ensuring they remain fit-for-purpose in response to changes within the Managing Agent, the Syndicate and the overall operating environment. Additionally the Chief Risk Officer is tasked with overseeing the identification, assessment and management of risk through the use of the risk management framework and ensuring the quality of the outcome of these activities.

An overarching risk management policy is in place, supported by risk category specific policies which identify headline risk appetite, risk measurement and tolerances. The principal risks and uncertainties faced by the Syndicate are as follows:

Underwriting Risk

- The risk that a loss may arise from fluctuations in timing, frequency and severity of insured events relative to plan, and fluctuations in timing and amount of claims settlements.
- To manage this risk detailed policies and procedures are in place, including underwriting authorities, limits and guidelines, along with exposure monitoring. Extensive reinsurance is purchased to mitigate underwriting risk and there is a robust control environment in place around the placement of reinsurance, including a framework and monitoring from a Reinsurance Security Committee and Board.

Strategic Report of the Directors of the Managing Agent (continued)

Reserving Risk

- The risk of insufficient provision for losses that already occurred.
- In order to manage this risk regular claims and loss monitoring is performed, as well as regular reviews of the reserving process by a specialist third party. These results are reviewed, alongside the Actuarial Function assessment, at the Reserving Committee.

Credit Risk

- The risk of losses arising on outstanding contracts should a counterparty default on its obligations or find other reasons for non-payment.
- A Reinsurance Security Committee is in place to assess and approve all reinsurers and reinsurance purchases, including the detailed criteria for consideration. This policy states that a rating of a minimum of A- from AM Best, or equivalent, is required in respect of all reinsurance security at the time any such reinsurance is bound, unless a specific exception is granted by the Committee. Credit control procedures are in place for all counterparties, with broker credit risk reported to the Underwriting Committee. Provisions are made for any amounts considered by the Reinsurance Security Committee to be uncollectible.

Liquidity Risk

- The risk of inability to realize investments and other assets in order to settle its financial obligations when they fall due.
- In order to manage this risk, the Board has put in place detailed investment guidelines. The guidelines are used by the investment managers and oversight is maintained by the Board's investment sub-committee.

Operational Risk

- The risk the Syndicate suffers a loss as a result of inadequate or failed internal process, as a result of people's actions, system processes or external events.
- In order to mitigate this risk, the Managing Agent ensures material operational risks are identified and controls adopted to mitigate these risks, with oversight and challenge via the Operational Risk Working Group.

Market Risk

- The risk of uncertainty of asset prices, interest rates, foreign exchange rates and other factors related to financial markets and investment asset management.
- In order to manage this risk, the Managing Agent imposes restrictions on the external investment managers' investment strategies. Strict limits, by trust fund, are set for types of assets held, concentration limits and average investment grade ratings. Investments are typically investment grade bonds and investment grade asset backed securities. Guidelines and benchmarks are set annually and approved by the Board. Regular reporting is reviewed and monitoring undertaken by the Investment Committee.

Strategic Report of the Directors of the Managing Agent (continued)

Concentration Risk

- The risk of losses arising from the correlation and concentration of business written within geographical area, of a policy type or of underlying risks covered, or that may arise with respect to investments in a geographical area, economic sector or individual investments. A risk concentration refers to an exposure with the potential to produce losses large enough to jeopardise the Syndicate's solvency or ability to maintain its core operations.
- The management of this risk is addressed within each risk class, between risk classes and through robust stress and scenario testing, including the use of specialist catastrophe models.

Strategic Risk

- The risk of incurring losses resulting from an inappropriate strategy being set or the inadequate implementation of strategy.
- Strategy is a matter reserved for the Board and monitored on an ongoing basis by both the Board and the Managing Agent's Executive Leadership Team. Risk management is a fundamental aspect of formulating strategy.

Reputational Risk

- The risk of losses through deterioration of the Syndicate or Managing Agent's reputation (or the Lloyd's brand) due to a negative perception of any aspect of the business or business practices, whether true or not, which could result in a decline of its customer base or costly litigation, or a negative impact on its revenue.
- In order to manage this risk, the Managing Agent has put in place detailed policies and procedures for the effective and efficient management of claims and complaints, and for ensuring that customers are treated fairly and Conduct Risk requirements are followed at all times. The Code of ethics is reviewed and acknowledged annually by all employees and training is also mandated periodically on material laws and policies related to ethical behaviour. Regular dialogue is maintained with regulatory bodies such as Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority.

Regulatory Risk (which is assessed for capital purposes within the Operational Risk category)

- The Managing Agent is required to comply with the requirements of the Prudential Regulation Authority, Financial Conduct Authority, Lloyd's and those imposed upon the Lloyd's market by overseas regulators where the Syndicate conducts business. Regulatory risk is the risk of loss owing to changes in current regulatory requirements or the imposition of new requirements. Such changes could increase capital requirements, increase operational costs, reduce the profitability of business or change the competitive landscape.
- The Managing Agent employs a Compliance Officer, who monitors regulatory developments and assesses the impact on the Managing Agent and Syndicate. These activities form part of an annual plan which includes compliance reviews against established policies, processes and procedures.

Strategic Report of the Directors of the Managing Agent (continued)

- Solvency II & Conduct Risk (in view of the materiality, we have highlighted these as principal risks although they fall within Operational and Regulatory risk):

    - The Managing Agent seeks to quantify its material risks. The Solvency II regime has resulted in the Managing Agent investing in a stochastic model that assists in the assessment of the economic capital requirements of the Syndicate's risk profile. This has been applied across the business to help inform material business decisions, with the aim of balancing risk and reward opportunities to optimise returns.

    - The Managing Agent seeks to avoid the risk of detriment to our customers or counterparties in light of inappropriate business activities or decision making. A conduct risk framework has been developed, which includes a number of controls and processes to mitigate this risk. Oversight and challenge is provided by the Conduct Committee and Board.

By order of the Board

C L Bach III
Director
20th March 2017

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report for the year ended 31 December 2016.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Business Review
An analysis of how Syndicate 1221 performed is contained within the Strategic Report.

Risk Review
An analysis of the principal risks and uncertainties is contained within the Strategic Report.

Future Developments
The Syndicate Capacity of Syndicate 1221 is £275m for the 2017 year of account. This represents an increase in capacity of £20m. The growth in 2017 will largely be from our European offices, and efforts to expand into Asia. Growth from the London market will be limited and focused on our new products such as Political Violence & Terrorism and Financial Institutions.

Directors
The Directors of the Managing Agent who served were as follows:
C L Bach III
R P Bardwell (resigned 30 December 2016)
H C Bassett
S R Coward
C M DeFalco
S A Galanski
G E Johnson
C D Short
P Sothinathan (resigned 30 June 2016)
C D Sprott
M J Sullivan
M J Casella (appointed 25 August 2016)
P J Davenport (appointed 9 August 2016)

Political and charitable donations
The Syndicate does not make any political donations and any charitable donations are expensed through the Managing Agent.

Disclosure of information to the auditors
So far as each person who was a Director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow Directors of the agency and the Syndicate's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors
Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Report of the Directors of the Managing Agent (continued)

Directors and Officers Protection
The group maintains a Directors and Officers liability insurance policy which indemnifies the Directors of the company if a claim is made against them in their capacity as a Director of the company.

Post Balance Sheet events

There are no post Balance Sheet events.

By order of the Board

C L Bach III
Director
20th March 2017

Statement of Managing Agent's responsibilities in respect of the Syndicate Financial Statements

Managing Agents are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.

Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the Managing Agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 Managing Agents must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing these financial statements, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements assuming there are no uncertainties surrounding the Syndicate's ability to continue to write business in the future as required to provide a true and fair view

Managing Agents are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Managing Agents are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's report to the members of Syndicate 1221

We have audited the financial statements of Syndicate 1221 for the year ended 31 December 2016, as set out on pages 14 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the members of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate and the Syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Managing Agent and Auditors

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 12, the Managing Agent is responsible for the preparation of the Syndicate's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Syndicate's financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Syndicate annual accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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.

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

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Jonathan Bell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, 15 Canada Square London, E14 5GL

20th March 2017

Statement of Profit or Loss Account: Technical account – General business
for the year ended 31 December 2016

	Notes		2016		2015
		£000	£000	£000	£000
Earned Premiums, net of reinsurance					
Gross premiums written	4	**339,893**		272,476	
Outward reinsurance premiums		**(92,964)**		(85,963)	
Net premiums written			**246,929**		186,513
Change in the provision for unearned premiums:					
Gross amount	4	**(21,551)**		(17,208)	
Reinsurers' share		**(4,378)**		776	
Change in the net provision for unearned premiums			**(25,929)**		(16,432)
Earned premiums, net of reinsurance			**221,000**		170,081
Other technical income, net of reinsurance			**504**		450
Allocated investment return transferred from the non-technical account	10		**3,518**		2,276
Claims incurred, net of reinsurance					
Claim paid					
Gross amount	6	**(149,668)**		**(119,054)**	
Reinsurers' share	6	**45,707**		**50,971**	
Net Claims paid			**(103,961)**		(68,083)
Change in the provision for claims					
Gross amount		**(34,057)**		(4,323)	
Reinsurers' share		**3,563**		(6,881)	
Change in the net provision for claims			**(30,494)**		(11,204)
Claims incurred, net of reinsurance			**(134,455)**		(79,287)
Net operating expenses	7		**(86,188)**		(64,223)
Balance on the technical account for general business			**4,379**		**29,297**

All operations are continuing

Statement of Profit or Loss Account: Non-technical account
for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Balance on the technical account - general business		**4,379**	29,297
Investment income	10	**6,479**	5,026
Unrealised losses on investments		**(2,570)**	(2,311)
Investment expenses and charges		**(391)**	(439)
Allocated investment return transferred to general business technical account	10	**(3,518)**	(2,276)
Investment return on capital provided by members		**2,564**	1,050
Profit/(Loss) on foreign exchange		**5,060**	(4,748)
Profit for the financial year		**12,003**	25,599

Statement of Other Comprehensive Income
for the year ended 31 December 2016

	2016 £000	2015 £000
Profit for the financial year	**12,003**	25,599
Foreign exchange on translation	**21,800**	5,763
Total comprehensive income for the year	**33,803**	31,362

There are no other recognised gains and losses in the year other than those reported in the Profit and loss account

Balance Sheet – Assets
at 31 December 2016

	Notes	2016 £000	2016 £000	2015 £000	2015 £000
Investments					
Financial Investments	11		**370,226**		303,226
Deposits with ceding undertakings			**317**		468
Reinsurers' share of technical provisions					
Provision for unearned premiums	6	**52,757**		49,883	
Claims outstanding	6	**148,070**		123,665	
			200,827		173,548
Debtors:					
Amounts due within one year					
Debtors arising out of direct insurance operations	12	**126,759**		96,867	
Debtors arising out of reinsurance operations	12	**47,748**		28,551	
Other Debtors	13	**67,234**		38,136	
			241,741		163,554
Amounts due after one year					
Debtors arising out of direct insurance operations	12	**69**		**63**	
Debtors arising out of reinsurance operations	12	**4**		**12**	
			73		75
Other assets					
Cash at bank and in hand		**23,210**		32,884	
Overseas deposits		**23,598**		14,949	
			46,808		47,833
Prepayments and accrued income					
Deferred acquisition costs	7	**28,169**		16,838	
Other prepayments and accrued income		**812**		215	
			28,981		17,053
Total assets			**888,973**		705,757

Balance Sheet – Liabilities
at 31 December 2016

	Notes		2016		2015
		£000	£000	£000	£000
Capital and Reserves					
Member's Balance			**145,465**		119,132
Technical provisions					
Provision for unearned premiums	6	**185,441**		141,350	
Claims outstanding	6	**431,675**		342,108	
			617,116		483,458
Creditors					
Creditors arising out of direct insurance operations	15	**2,193**		3,924	
Creditors arising out of reinsurance operations	15	**57,717**		56,562	
Other Creditors	14	**65,388**		41,328	
			125,298		101,814
Accruals and deferred income			**1,094**		1,353
Total liabilities			**888,973**		705,757

The financial statements on pages 14 to 39 were approved by the Board of Navigators Underwriting Agency Limited on 20th March 2017 and were signed on its behalf by

P Davenport
Director
20th March 2017

Statement of Changes in Members' Balances
for the year ended 31 December 2016

	2016	2015
	£000	£000
Member balances brought forward at 1 January	**119,132**	89,197
Profit for the financial year	**33,803**	31,362
Distribution of profit	**(18,423)**	(11,782)
Undistributed prior year profits held as funds at Lloyd's	**-**	10,355
Release to members	**10,953**	-
Member balances carried forward at 31 December	**145,465**	119,132

Statement of Cash Flows
for the year ended 31 December 2016

	Notes	2016 £000	2016 £000	2015 £000	2015 £000
Cash flows from operating activities					
Profit for the year		**12,003**		25,599	
Adjustments:					
Net gains on other financial instruments	16	**(79,049)**		(6,289)	
Net unrealised foreign exchange gains		**21,800**		4,022	
Interest received		**-**		2,275	
Movements in operating assets and liabilities:					
Acquisitions of other financial instruments	17	**(199,044)**		(152,954)	
Proceeds from sale of other financial instruments	17	**202,915**		143,457	
(Decrease)/Increase in reinsurers share of technical provisions	6	**(27,279)**		755	
Increase in deferred acquisition costs	7	**(11,331)**		(5,187)	
Increase in debtors, subrogation and salvage and prepayments		**(78,782)**		(50,493)	
Increase in technical provisions	6	**133,658**		40,213	
Increase in creditors	14/15	**23,484**		8,767	
(Decrease)/ Increase in accruals and deferred income		**(259)**		794	
Net cash (outflow)/inflow from operating activities			**(1,884)**		10,960
Net cash flow from financing activities:					
Transfer to members in respect of underwriting participations		**(7,470)**		**(1,426)**	
Net cash outflow from financing activities			**(7,470)**		(1,426)
Net (decrease)/ increase in cash and cash equivalents	16		**(9,354)**		9,534
Cash and cash equivalents at 1 January			**47,833**		38,800
Effect of exchange rate changes on cash and cash equivalents	16		**8,329**		(501)
Cash and cash equivalents at 31 December			**46,808**		47,833

Notes to the financial statements at 31 December 2016

1. Basis of preparation

Syndicate 1221 ('The Syndicate') comprises one member of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the Syndicate's Managing Agent is 7-8th Floors, 6 Bevis Marks, London, EC3A 7BA.

The financial statements have been prepared for the year ended 31 December 2016.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 Insurance Contracts ("FRS 103") as issued in March 2014.

The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss that are measured at fair value.

The financial statements are presented in Pounds Sterling ("GBP") which is the Syndicate's presentational currency. The Syndicate's functional currency is United States Dollars ("USD"). All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2. Accounting policies

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Unearned premiums

Written premiums are recognised as earned according to the earnings profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment.

Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on standard actuarial methods (paid and incurred, chain ladder, Bornhuetter Ferguson and initial expected loss ratios).

Notes to the financial statements at 31 December 2016 (continued)

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions regarding claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this 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. The methods used, and the estimates made, are reviewed regularly.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Foreign currencies

Income and expenditure in foreign currencies are translated at the average rates of exchange for the period.

Assets and liabilities denominated in foreign currencies are re-valued at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

All differences arising on revaluation of foreign currency amounts into the functional currency (USD) are included in the profit and loss account and all differences relating to the translation from functional currency to the presentational currency (GBP) are included in the Statement of Other Comprehensive Income.

Notes to the financial statements at 31 December 2016 (continued)

Investments

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

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 market value represent the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or the 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 disposal in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made in full from the non-technical account to the general business technical account.

Identification and measurement of impairment of financial assets

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after initial recognition of an asset. The Syndicate reviews its financial assets periodically to identify any assets which display evidence of impairment. Some of the factors considered in identifying impairment include: (1) whether the Syndicate will be required to sell the investment prior to an anticipated recovery in value; (2) the likelihood of the recoveries in full of the principal and interest; (3) the financial condition, near-term and long-term prospects for the issuer (4) relevant industry conditions and trends, and implications of rating agency actions and offering prices.

All impairment losses are recognised in full in the profit and loss.

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

Pension costs

Navigators Underwriting Agency Limited 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.

Notes to the financial statements at 31 December 2016 (continued)

3. Risk Management

a) Insurance Risk

The Insurance Risk faced by the Syndicate is by its very nature unpredictable. The principal causes of insurance risk to the Syndicate are the under-pricing of premiums, under-reserving and the exposure to catastrophe claims.

The table below details the Syndicate's risk exposures by geographical region.

2016

	Gross Written Premium	Reinsurance Written Premium	Net Written Premium
	£000	£000	£000
United Kingdom	73,538	(20,113)	53,425
Other EU Countries	65,476	(17,908)	47,569
USA	74,858	(20,475)	54,383
Other	126,021	(34,468)	91,553
Total	339,893	(92,964)	246,930

2015

	Gross Written Premium	Reinsurance Written Premium	Net Written Premium
	£000	£000	£000
United Kingdom	55,655	(17,559)	38,096
Other EU Countries	52,294	(16,498)	35,796
USA	66,472	(20,971)	45,501
Other	98,054	(30,935)	67,120
Total	272,476	(85,963)	186,513

The premiums by class are shown on the segmental analysis in note 4, on page 30.

Earned premium is calculated based on the inception and expiry dates, and the profile of exposure of policies written.

Net incurred claims are calculated based on reported claims in the period and the movement in earned IBNR, based on the actuarially calculated ultimate claims reserve.

The following table shows the effect of a five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity.

Notes to the financial statements at 31 December 2016 (continued)

Note 3 (continued)

	2016		2015	
	5 percent increase	5 percent decrease	5 percent increase	5 percent decrease
Direct insurance:				
Marine	(5,305)	5,305	(4,175)	4,175
Transport	(539)	539	(1,248)	1,248
Energy - Marine	(629)	629	(972)	972
Energy - Non marine	(361)	361	(165)	165
Fire and other damage to property	(2,233)	2,233	(789)	789
Third party liability	(3,872)	3,872	(2,701)	2,701
Other	(126)	126	(37)	37
	(13,065)	13,065	(10,088)	10,088
Reinsurance	(1,121)	1,121	(833)	833
Total	(14,186)	14,186	(10,921)	10,921

b) Financial Risk

The Syndicate is exposed to a range of financial risks through its financial assets and financial liabilities. The key financial risk is that the proceeds from financial assets will not be sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due.

The main components of financial risk are credit risk, liquidity risk and market risk (as detailed in the Principal risks and uncertainties section). These risks arise from the Syndicate's investment and reinsurance assets and its insurance liabilities.

c) Credit Risk

Credit risk is managed and monitored by the Syndicate's Risk Committee.

The table below details the Syndicate's exposure to credit risk by asset type, with reference to the credit rating of the counterparties.

2016	AAA	AA	A	BBB	Not rated	Total
	£000	£000	£000	£000	£000	£000
Financial Investments						
Debt securities and Other fixed Income	79,547	85,808	155,627	43,553	5,512	370,047
Deposits with Credit institutions	-	-	179	-	-	179
Shares and other variable yield securities and unit trusts	-	-	-	-	-	-
	79,547	**85,808**	**155,806**	**43,553**	**5,512**	**370,226**
Reinsurers' share of the outstanding claims including IBNR	-	297	140,460	-	7,313	148,070
Reinsurance Debtors	-	20	42,110	-	5,622	47,752
Deposits with ceding undertakings	-	-	-	-	317	317
Overseas Deposits	9,429	2,265	2,064	2,046	7,794	23,598
Cash at bank and in hand	-	23,210	-	-	-	23,210
Total Credit Risk Exposure	**88,976**	**111,600**	**340,440**	**45,599**	**26,558**	**613,173**

Notes to the financial statements at 31 December 2016 (continued)

2015	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial Investments						
Debt securities and Other fixed Income	121,255	30,741	119,166	31,393	-	302,555
Deposits with Credit institutions	-	-	152	-	-	152
Shares and other variable yield securities and unit trusts	-	-	519	-	-	519
	121,255	**30,741**	**119,837**	**31,393**	**-**	**303,226**
Reinsurers' share of the outstanding claims including IBNR	-	450	116,481	4,147	2,587	123,665
Reinsurance Debtors	-	104	26,904	958	597	28,563
Deposits with ceding undertakings	-	-	-	-	468	468
Overseas Deposits	7,417	3,122	1,501	2,884	25	14,949
Cash at bank and in hand	-	32,884	-	-	-	32,884
Total Credit Risk Exposure	**128,672**	**67,302**	**264,722**	**39,382**	**3,677**	**503,755**

The table below details the Syndicate's assets which are past due but not impaired

		Financial assets that are past due but not impaired				
2016	**Neither past due nor impaired £000**	**Up to three months £000**	**Three to six months £000**	**Six months to one year £000**	**Greater than one year £000**	**Total £000**
Debtors arising out of direct insurance operations	80,549	23,192	23,018	-	69	126,828
Other Debtors	67,231	-	-	-	3	67,234
Total	**147,780**	**23,192**	**23,018**	**-**	**72**	**194,062**

		Financial assets that are past due but not impaired				
2015	**Neither past due nor impaired £000**	**Up to three months £000**	**Three to six months £000**	**Six months to one year £000**	**Greater than one year £000**	**Total £000**
Debtors arising out of direct insurance operations	67,544	25,273	4,113	-	-	96,930
Other Debtors	38,136	-	-	-	-	38,136
Total	**105,680**	**25,273**	**4,113**	**-**	**-**	**135,066**

Notes to the financial statements at 31 December 2016 (continued)

d) Liquidity risk

The table below analyses the Syndicate's monetary assets and liabilities into their relevant maturity groups based on the period remaining at the year end to their contractual maturities or expected settlement dates. Net liabilities in up to one year can be covered by selling investments before their maturity date.

2016	Up to 1 Year	1-3 Years	3-5 Years	Over 5 years	Total
	£000	£000	£000	£000	£000
Financial Investments	49,896	203,875	62,207	54,248	370,226
Insurance and Reinsurance Receivables	174,507	73	-	-	174,580
Cash at Bank and In hand	23,210	-	-	-	23,210
Net Insurance claims outstanding	(107,858)	(102,676)	(40,441)	(32,630)	(283,605)
Creditors	(125,298)	-	-	-	(125,298)
Accruals and Deferred Income	(1,094)	-	-	-	(1,094)
Total	**13,363**	**101,272**	**21,766**	**21,618**	**158,019**

2015	Up to 1 Year	1-3 Years	3-5 Years	Over 5 years	Total
	£000	£000	£000	£000	£000
Financial Investments	14,758	164,129	78,792	44,876	302,555
Insurance and Reinsurance Receivables	125,493	-	-	-	125,493
Cash at Bank and In hand	32,884	-	-	-	32,884
Net Insurance claims outstanding	(149,029)	(50,242)	(5,231)	(13,941)	(218,443)
Creditors	(101,133)	-	-	-	(101,133)
Accruals and Deferred Income	-	(1,353)	-	-	(1,353)
Total	**(77,028)**	**112,534**	**73,561**	**30,935**	**140,002**

e) Market Risk

Foreign Currency market risk

It is the Syndicate's policy to monitor assets and liabilities in the currencies it is exposed to on a monthly basis in order to minimize foreign currency risk.

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

	2016		**2015**	
	Year-end rate	**Average rate**	**Year-end rate**	**Average rate**
Euro	**1.169**	**1.237**	1.376	1.386
US dollar	**1.242**	**1.370**	1.490	1.530
Canadian dollar	**1.679**	**1.812**	2.077	1.968

Notes to the financial statements at 31 December 2016 (continued)

The table below details the Syndicate's assets and liabilities, in converted Sterling by currency at 31 December 2016

2016	GBP	USD	CAD	EUR	AUD	JPY	OTH	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Financial investments	15	307,972	62,239	-	-	-	-	370,226
Reinsurers' share of technical provisions	42,039	147,388	11,400	-	-	-	-	200,827
Insurance and reinsurance receivables	63,402	104,703	6,449	-	4	-	22	174,580
Cash and cash equivalents	19,667	11,236	8,050	1,918	652	-	5,285	46,808
Other assets	25,736	65,954	2,710	2,052	-	-	80	96,532
Total assets	150,859	637,253	90,848	3,970	656	-	5,387	888,973
Technical provisions	167,834	413,617	35,665	-	-	-	-	617,116
Insurance and reinsurance payables	13,648	44,411	1,398	453	-	-	-	59,910
Other creditors	1,554	60,981	1,663	-	14	-	2,270	66,482
Total liabilities	183,036	519,009	38,726	453	14	-	2,270	743,509
Net Assets	(32,177)	118,244	52,122	3,517	642	-	3,117	145,464

2015	GBP	USD	CAD	EUR	AUD	JPY	OTH	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Financial investments	13	273,444	29,768	-	-	-	-	303,225
Reinsurers' share of technical provisions	34,252	132,510	6,786	-	-	-	-	173,548
Insurance and reinsurance receivables	42,214	79,530	3,749	-	-	-	-	125,493
Cash and cash equivalents	15,534	14,539	8,025	4,824	1,328	-	3,583	47,833
Other assets	12,649	38,136	1,685	3,188	-	-	-	55,657
Total assets	104,662	538,159	50,012	8,012	1,328	-	3,583	705,756
Technical provisions	115,759	347,203	20,496	-	-	-	-	483,458
Insurance and reinsurance payables	11,032	48,178	1,275	-	-	-	-	60,486
Other creditors	1,918	38,529	827	494	10	-	904	42,682
Total liabilities	128,709	433,910	22,598	494	10	-	904	586,625
Net Assets	(24,047)	104,249	7,517	27,415	1,318	-	2,679	119,131

Notes to the financial statements at 31 December 2016 (continued)

Sensitivity analysis to market risks for financial instruments

An analysis of the syndicate's sensitivity to interest rate, currency and other price risk is presented in the table below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

	2016	2015
	Profit or loss for the year £000	Profit or loss for the year £000
Interest rate risk		
+ 50 basis points shift in yield curves	(4,811)	(3,980)
-50 basis points shift in yield curves	4,775	3,950
Currency risk		
10 percent increase in GBP/euro exchange rate	352	3,773
10 percent decrease in GBP/euro exchange rate	(352)	(3,773)
10 percent increase in GBP/US dollar exchange rate	11,824	(2,405)
10 percent decrease in GBP/US dollar exchange rate	(11,824)	2,405
10 percent increase in GBP/Canadian dollar exchange rate	5,212	1,561
10 percent decrease in GBP/Canadian dollar exchange rate	(5,212)	(1,561)

The prior year interest rate risk has been restated based on the revised methodology applied in 2016

f) Fair Value Estimate

Financial instruments that are fair valued through the profit and loss are classified using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

Level 1- The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability either directly or indirectly.

Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

2016

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and units in unit trusts				
Debt securities and other fixed income securities	9,698	360,349	-	370,047
Loans and deposits with credit institutions	-	179	-	179
Total Financial Assets at Fair Value	9,698	360,528	-	370,226

2015

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and units in unit trusts	-	519	-	519
Debt securities and other fixed income securities	22,332	280,223	-	302,555
Loans and deposits with credit institutions	7,609	7,491	-	15,100
Total Financial Assets at Fair Value	29,941	288,234	-	318,174

Notes to the financial statements at 31 December 2016 (continued)

g) Capital management

Framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's would comply with the Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level, Accordingly, the capital requirement in respect of Syndicate 1221 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicates on which it is participating but no other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), assets held and managed within a Syndicate (Funds in Syndicate), or as the member's share of the members' balances on each Syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the balance sheet on pages 16 and 17, represent resources available to meet members' and Lloyd's capital requirements.

Notes to the financial statements at 31 December 2016 (continued)

4. Analysis of Underwriting Results

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

2016	Gross Written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Marine	40,426	41,474	(24,182)	(11,771)	2,149	7,670
Aviation	-	-	-	-	-	-
Transport	49,187	47,888	(29,832)	(20,391)	(2,852)	(5,187)
Energy - Marine	31,909	33,205	(12,014)	(7,750)	(7,969)	5,472
Energy - Non marine	15,507	16,280	(9,774)	(90)	(4,682)	1,734
Fire and other damage to property	88,122	78,448	(59,296)	(19,656)	(16,610)	(17,114)
Third party liability	84,500	72,294	(35,247)	(17,733)	(14,024)	5,290
Other	7,625	4,704	(2,732)	(2,040)	406	338
	317,276	294,293	(173,077)	(79,431)	(43,582)	(1,797)
Reinsurance	22,617	24,049	(10,648)	(6,253)	(4,490)	2,658
Total	339,893	318,342	(183,725)	(85,684)	(48,072)	861

2015	Gross Written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Marine	42,045	44,569	(18,838)	(11,946)	(7,567)	6,219
Aviation	-	-	-	-	-	-
Transport	40,442	39,135	(21,017)	(15,930)	(1,256)	932
Energy - Marine	36,082	38,814	(21,375)	(7,856)	(4,981)	4,602
Energy - Non marine	14,728	14,403	(4,635)	(223)	(8,732)	813
Fire and other damage to property	53,644	47,476	(14,603)	(15,022)	(18,029)	(178)
Third party liability	60,248	49,063	(35,664)	(6,302)	(67)	7,030
Other	2,774	2,691	(706)	(1,214)	(237)	534
	249,963	236,151	(116,838)	(58,493)	(40,869)	19,952
Reinsurance	22,513	19,117	(6,539)	(5,281)	(228)	7,069
Total	272,476	255,268	(123,377)	(63,774)	(41,097)	27,021

All premiums were concluded in the UK.

Notes to the financial statements at 31 December 2016 (continued)

5. Claims outstanding

The surpluses/(deficits) following the reassessment of claims outstanding held at the end of the previous year are set out below.

	2016	2015
	£000	£000
Marine, aviation and transport	**4,830**	12,710
Energy	**6,237**	4,079
Fire and damage to other property	**(6,892)**	(675)
Third party liability	**(3,528)**	(2,302)
Other	**(147)**	(39)
Total direct	**500**	13,773
Reinsurance acceptance	**(1,596)**	3,623
	(1,096)	17,396

The FRS 103 transitional provision has been applied, which allows the Syndicate not to disclose information about claims development that occurred earlier than 5 years before the end of the first financial year in which FRS 103 is applied.

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on a pure underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2016 in all cases.

Pure Underwriting Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Estimate of ultimate gross claims	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
at end of underwriting year	80,243	84,576	79,755	90,434	84,997	106,974	526,980
one year later	158,010	161,550	147,952	161,385	185,609	-	814,505
two years later	163,750	155,345	145,245	167,835	-	-	632,175
three years later	156,176	151,145	125,862	-	-	-	433,182
four years later	161,288	146,390	-	-	-	-	307,678
five years later	172,157	-	-	-	-	-	172,157
Less gross Claims paid	144,771	124,407	99,025	80,502	62,819	11,472	522,996
Gross ultimate claims reserve	27,386	21,983	26,836	87,332	122,789	95,502	381,830
Gross ultimate claims reserve for 2010 & prior years							49,845
Gross claims reserves							**431,675**

Notes to the financial statements at 31 December 2016 (continued)

Note 5 (continued)

Pure Underwriting Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Estimate of ultimate net claims	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
at end of underwriting year	55,957	51,732	49,545	55,627	58,812	75,946	347,619
one year later	99,291	100,626	93,548	103,582	128,079	-	525,127
two years later	99,907	97,057	91,541	110,708	-	-	399,212
three years later	89,976	95,563	82,130	-	-	-	267,669
four years later	87,962	96,690	-	-	-	-	184,652
five years later	93,745	-	-	-	-	-	93,745
Less net Claims paid	78,875	76,780	62,977	59,752	48,843	9,058	336,284
Net ultimate claims reserve	14,870	19,910	19,154	50,955	79,237	66,888	251,014
Net ultimate claims reserve for 2010 & prior years							32,591
Net claims reserves							**283,605**

6. Technical Provisions

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

	2016			**2015**		
	Gross Provisions	**Reinsurance Assets**	**Net**	**Gross Provision**	**Reinsurance Assets**	**Net**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Incurred claims outstanding						
Claims notified	197,728	(68,391)	129,337	189,689	(74,753)	114,936
Claims incurred but not reported	144,380	(55,274)	89,106	138,082	(51,873)	86,209
Balance at 1st January	342,108	(123,665)	218,443	327,771	(126,625)	201,145
Change in prior year provisions	88,222	(20,656)	67,567	(59,584)	27,736	(31,848)
Expected cost of current year claims	95,502	(28,614)	66,888	182,961	(71,825)	111,136
Claims paid during the year	(149,668)	45,707	(103,961)	(119,054)	50,971	(68,083)
Effects of movements in exchange rates	55,510	(20,842)	34,668	10,014	(3,922)	6,093
Balance as at 31st December	431,675	(148,070)	283,605	342,108	(123,665)	218,443
Claims notified	279,932	(91,259)	188,674	197,728	(68,391)	129,337
Claims incurred but not reported	151,743	(56,811)	94,932	144,380	(55,274)	89,106
Balance at 31st December	431,675	(148,070)	283,605	342,108	(123,665)	218,443
Unearned Premiums						
Balance at 1st January	141,350	(49,883)	91,467	120,660	(47,677)	72,983
Premiums Written during the year	(339,893)	92,964	(246,930)	272,476	(85,963)	186,513
Premiums earned during the year	361,444	(88,585)	272,859	(255,268)	85,187	(170,081)
Effects of exchange rates	22,540	(7,253)	15,287	3,482	(1,430)	2,052
Balance at 31st December	185,441	(52,757)	132,683	141,350	(49,883)	91,467

Notes to the financial statements at 31 December 2016 (continued)

7. Net operating expenses

Administrative expenses include:

	2016 £000	2015 £000
Acquisition costs	**84,561**	61,634
Change in deferred acquisition costs	**(11,425)**	(5,278)
Administrative expenses	**27,042**	19,892
Personal Expenses	**6,991**	6,536
Reinsurance commissions and profit participations	**(20,980)**	(18,561)
	86,188	64,223

The table below shows changes in deferred acquisition costs assets from the beginning of the period to the end of the period.

	2016 £000	2015 £000
Balance at 1 January	**16,838**	11,561
Incurred costs deferred	**84,561**	61,634
Amortisation	**(73,230)**	(56,357)
Balance at 31 December	**28,169**	16,838

Administrative expenses include:

	2016 £000	2015 £000
Auditors' remuneration		
- Fees payable to the Syndicate's auditor for the audit of these financial statements	**111**	129
-Fees payable to the Syndicate's auditor and its associates in respect of: other services pursuant to legislation	**99**	77
	210	206

Notes to the financial statements at 31 December 2016 (continued)

8. Staff numbers and costs

The following amounts were recharged to the Syndicate in respect of salary costs for employees who have worked on behalf of the Syndicate during the year.

	2016	2015
	£000	£000
Wages and salaries	**12,110**	9,169
Social security costs	**2,315**	1,724
Other pension costs	**1,751**	1,415
	16,176	12,308

The average number of employees employed by the Managing Agency but working for the Syndicate during the year was as follows:

	2016	2015
Administration and finance	**58**	45
Underwriting	**42**	45
Claims	**12**	10
	112	100

9. Emoluments of the Directors of Navigators Underwriting Agency Limited

The Directors of Navigators Underwriting Agency Limited received the following aggregate remuneration charged to the Syndicate and are included within net operating expenses:

	2016	2015
	£000	£000
Emoluments	**1,536**	1,048
Pension costs	**157**	134
	1,693	1,182

The active underwriter (2015:3 active underwriters to 12 June 2015, thereafter 1active underwriter) received the following remuneration charged as a Syndicate expense:

	2016	2015
	£000	£000
Emoluments	**227**	352
Pension costs	**29**	45
	256	397

Notes to the financial statements at 31 December 2016 (continued)

10. Investment return

	2016 £000	2015 £000
Investment income		
Income from investments at fair value through profit or loss	**5,974**	5,346
Gains on the realisation of investments designated on initial recognition at fair value through profit or loss	**1,135**	531
Losses on the realisation of investments designated on initial recognition at fair value through profit or loss	**(630)**	(851)
	6,479	5,026

The table below presents the average amounts of funds in the year per currency and analyses by major currency the average investment yields in the year.

	2016 £000	2015 £000
Average amount of Syndicate funds available for investment during the year		
Canadian	**50,831**	33,666
US dollar	**286,386**	251,698
Total funds available for investment, in sterling	**337,218**	285,364
Total investment return	**3,518**	2,276
Annual investment yield		
Canadian	**0.94%**	2.17%
US dollar	**1.06%**	0.61%
Total annual investment yield, in sterling	**1.04%**	0.80%

11. Financial investments

	Market value		Cost	
	2016 £000	2015 £000	2016 £000	2015 £000
Shares and other variable yield securities	**-**	519	**-**	519
Debt securities and other fixed income securities	**370,047**	302,555	**369,022**	301,642
Deposits with credit institutions	**179**	152	**179**	152
	370,226	303,226	**369,201**	302,313

Notes to the financial statements at 31 December 2016 (continued)

12. Debtors arising out of direct insurance and reinsurance operations

Of the debtors arising out of direct insurance and reinsurance operations, the whole amount is due from intermediaries.

13. Other Debtors

	2016	2015
	£000	£000
Reinsurance profit commissions	**3,880**	2,778
US Federal income tax	**1,271**	872
Inter-company balances	**61,281**	33,792
Over-rider commission	**79**	81
Amounts due from consortium members	**-**	5
VAT recoverable	**496**	414
Sundry Debtors	**227**	194
	67,234	38,136

14. Other Creditors

	2016	2015
	£000	£000
Balances due to managing agent and US Parent	**10,075**	9,725
Investment purchases	**91**	79
Distribution creditor	**49,027**	27,966
Profit commission payable	**3,571**	2,148
Sundry creditors	**2,624**	1,410
	65,388	41,328

15. Creditors arising out of direct insurance operations

Of the creditors arising out of direct insurance and reinsurance operations, the whole amount is due to intermediaries.

The table below shows the creditors arising out of insurance operations at amortised cost.

	2016	**2015**
	£000	**£000**
Creditors arising out of direct insurance operations	**2,193**	3,924
Creditors arising out of reinsurance operations	**57,717**	56,562
Other creditors	**65,388**	41,328
Total financial liabilities at amortised cost	**125,298**	101,814

Notes to the financial statements at 31 December 2016 (continued)

16. Movement in opening and closing portfolio investments net of financing

	2016 £000	2015 £000
Net cash (outflow)/ inflow for the year	**(13,512)**	12,339
Cash inflow from:		
Increase/(decrease) in overseas deposits	**4,158**	(2,805)
(Decrease)/increase in portfolio investments	**(3,872)**	9,463
Movement arising from cash flows	**(13,226)**	18,996
Changes in market value and exchange rates	**79,049**	5,788
Total movement in portfolio investments, net of financing	**65,823**	24,784
Portfolio at 1 January	**351,527**	326,743
Portfolio at 31 December	**417,351**	351,527

Movement in cash, portfolio investments and financing

	At 1 January 2016 £000	Cash flow £000	Changes to market values and currencies £000	At 31 December 2016 £000
Cash at bank and in hand	32,884	(13,512)	3,838	23,210
Overseas deposits	14,949	4,158	4,491	23,598
	47,833	(9,354)	8,329	46,808
Portfolio investments:				
Shares and other variable yield securities	519	(623)	104	-
Debt securities and other fixed income securities	302,555	(3,069)	70,560	370,047
Deposits with ceding undertakings	468	(180)	29	317
Deposits with credit institutions	152	-	27	179
				-
Total portfolio investments	303,694	(3,872)	70,720	370,543
Total cash, portfolio investments and financing	351,527	(13,226)	79,049	417,351

Notes to the financial statements at 31 December 2016 (continued)

Note 16 (continued)

	At 1 January 2015 £000	Cash flow £000	Changes to market values and currencies £000	At 31 December 2015 £000
Cash at bank and in hand	20,989	12,339	(444)	32,884
Overseas deposits	17,811	(2,805)	(57)	14,949
	38,800	9,534	(501)	47,833
Portfolio investments:				
Shares and other variable yield securities	331	171	17	519
Debt securities and other fixed income securities	286,972	9,326	6,257	302,555
Deposits with ceding undertakings	495	(34)	7	468
Deposits with credit institutions	145	-	8	151
Total portfolio investments	287,943	9,463	6,289	303,692
Total cash, portfolio investments and financing	326,742	18,996	5,788	351,526

17. Net outflow / (inflow) on portfolio investments

	2016 £000	2015 £000
Purchase of debt securities and other fixed income securities	**199,044**	152,783
Purchase of shares and other variable yield securities	**-**	171
Deposits with credit institutions	**-**	-
Deposits with ceding undertakings	**(180)**	(34)
Sale of debt securities and other fixed income securities	**(202,113)**	(143,457)
Sale of shares and other variable yield securities	**(622)**	-
Net inflow on portfolio investments	**(3,871)**	9,463

Notes to the financial statements at 31 December 2016 (continued)

18. Related parties

There are various instances of related party transactions during the period, relating to inwards and outwards reinsurance of and to Navigators Insurance Company. All inwards transactions have been conducted on an arm's length basis and fall within the terms of the advance consents granted by Lloyd's.

The Navigators Group, Inc. purchases a number of reinsurance contracts which provide coverage for both the Syndicate and other Navigators companies. Deposit premiums are allocated based upon the exposures covered and relative claims experience. Additional premiums, if payable, are allocated according to the payment of losses across the entities.

The immediate parent company of Navigators Underwriting Agency Limited is Navigators Holdings (UK) Limited. The ultimate parent company is The Navigators Group, Inc., which is incorporated in the USA.

Total fees payable to Navigators Underwriting Agency Limited in respect of services provided to the Syndicate amounted to £4.9m (2015: £4.3m).

19. Funds at Lloyd's

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 based on PRA requirements and resource criteria. FAL considers 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 financial statements 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.