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# **NAVIGATORS**

**UNDERWRITING AGENCY LIMITED**

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**at LLOYD'S**

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**Syndicate Annual Accounts  
31st December 2017**

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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at LLOYD'S

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UNDERWRITING AGENCY LIMITED

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## **Directors and administration**

### **MANAGING AGENT:**

#### **Managing Agent**

Navigators Underwriting Agency Limited

#### **Directors**

C L Bach III  
H C Bassett\*  
C M DeFalco\*  
S A Galanski\*  
G E Johnson\*  
C D Short\*  
C D Sprott  
M J Sullivan\*  
M J Casella\*  
P J Davenport

\* Non-executive

#### **Managing Agent's registered office**

7-8<sup>th</sup> Floor, 6 Bevis Marks,  
London,  
EC3A 7BA

#### **Managing Agent's registered number**

1380715

## **SYNDICATE:**

### **Active underwriter**

Richard Whitfield

### **Bankers**

Citibank N.A.  
HSBC  
Royal Bank of Canada

### **Investment managers**

New England Asset Management Limited

### **Registered auditor**

KPMG LLP, London

### **Solicitor**

Norton Rose Fulbright LLP, London



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## **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 2017, 2016, and 2015 was £275m, £255m, and £220m 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 International Property business and the impact of Hurricanes Harvey, Irma and Maria, 2017 marked a year of significant progress across a number of major initiatives.

In 2017, the London insurance market continued to face significant challenges from over capacity and growth of competing local and regional hubs. Distribution continues to be disrupted by the use of broker-underwriter facilities and panels, which result in the commoditisation of the 'following' component of underwriting in a subscription market.

Our strategic priorities in 2017 were centred around 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 2017, 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 their specialist expertise and service levels. 2017 also saw the successful growth of our 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, for much of the year the market remained extremely competitive with recent new entrants creating additional pressure on rates. The underwriting team stayed focused on the quality of their underwriting and diligent portfolio management and although results were affected by the hurricane activity we are now seeing the benefit of some improvement in rates.

During the course of 2017, the International Property business was put under review as a result of loss activity which significantly exceeded our expectations. After completion of this review, the decision was made to exit this line of business and place it into run-off.

### **NavPro**

The Errors and Omissions (E&O) team saw a further increase in revenue in 2017, led by the London team. This growth stemmed largely from the successful execution of new business initiatives in recent years.

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

The market for International Commercial Directors & Officers Liability (D&O) remained challenging, driven by further rate pressure 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 continued the successful expansion of our Financial Institutions Professional Liability & Crime initiative, with the team building out its product suite and consolidating their credibility in the market.

## Performance and Measurement

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

	2017	2016	%
	£000	£000	
Gross premiums written	366,766	339,893	7.91%
Net premiums written	249,019	246,929	0.85%
Net earned premiums	249,296	221,000	12.80%
Net operating expenses	94,097	86,189	9.18%
Investment income	4,828	6,479	(25.48)%
Combined Ratio	106.01%	99.84%	

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

Gross written premium has increased by 7.91%. 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 in Property lines due to decisions to exit those lines of business.

Net written premium and net earned premium have increased by 0.85% and 12.80% respectively. This is largely due to growth in NavPro lines alongside the effect of reinsuring our Property North America portfolio with effect from 1st January 2017.

Net operating expenses are 9.18% higher than in 2016. This is partly due to an increase in administration expenses, particularly 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 decreased by 25.48% on the prior year; total investment return has decreased by 6.38% from £3.5m in 2016 to £3.3m in 2017. This was due to a decrease in investment income of £1.7 in 2017, offset by a net decrease in unrealized losses and investment expenses of £1.4m in 2017.

The Syndicate's combined ratio has increased from 99.84% to 106.01% in 2017, which is due to an increase in net claims incurred activity, including net losses of £20.9m from Hurricanes Harvey, Irma and Maria.

## Profits on Ordinary Activities before Tax

The loss for calendar year 2017 is £7.8m (2016: £12.0m profit). This includes an underwriting loss of £15.0m (2016: £0.9m profit), investment return of £3.3m (2016: £3.5m) and net operating expenses of £94.1m (2016: £86.2m).

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UNDERWRITING AGENCY LIMITED

SYNDICATE 1221

at LLOYD'S

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

### Member's Funds

The member's funds are £125.6m (2016: £145.5m). The decrease is due to the total comprehensive loss of £18.2m (2016: profit of £33.8m) and a net distribution to the corporate vehicle of £1.6m (2016: £7.5m).

### 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 a risk category policy specifying the approach to management of the risk. 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.

#### 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.

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

- 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.
- A Risk Monitoring Committee is in place, which monitors premium credit risk and reports into the Underwriting & Claims Committee on a regular basis

### 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 mitigate this risk, the Managing Agent ensures material operational risks are identified and controls adopted to mitigate these risks, with oversight and challenge Risk & Compliance 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 Risk & Compliance Committee.

### 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.

### 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.

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UNDERWRITING AGENCY LIMITED

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

### 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.
- 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.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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## Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report for the year ended 31 December 2017.

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"), and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103'). Separate underwriting year accounts for the 2015 closed year of account will be made available to the Syndicate members.

## 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 £255m for the 2018 year of account. This represents a decrease in capacity of £20m. The reduction in 2018 reflects our exit from Property lines of business and the execution of our plan to transfer business assumed from our European offices, to a non-Lloyd's carrier.

## Directors

The Directors of the Managing Agent who served during the year ended 31 December 2017 and up to the date of this report were as follows:

C L Bach III  
H C Bassett  
S R Coward (resigned 28 July 2017)  
C M DeFalco  
S A Galanski  
G E Johnson  
C D Short  
C D Sprott  
M J Sullivan  
M J Casella  
P J Davenport

## 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.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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## **Report of the Directors of the Managing Agent (continued)**

### **Re-appointment of auditors**

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

### **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

16<sup>th</sup> March 2018

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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

The directors of the managing agent are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of 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 (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent 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 directors of the managing agent are 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
- Assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the managing agent 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 (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

The directors of the managing agent 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.



C L Bach III  
Director  
16<sup>th</sup> March 2018



# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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## Independent Auditor's report to the members of Syndicate 1221

### Opinion

We have audited the financial statements of Syndicate [number] for the year ended 31 December 2017 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: non-technical account, Balance Sheet – Assets, Balance Sheet – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

### Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

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

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

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## **Responsibilities of the directors of the Managing Agent**

As explained more fully in their statement set out on page 11, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

## **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the syndicate's members, 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 to them 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 company and the syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Ben Priestley (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London, E14 5GL  
16<sup>th</sup> March 2018

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## Statement of Profit or Loss Account: Technical account – General business for the year ended 31 December 2017

		2017		2016	
	Notes	£000	£000	£000	£000
<b>Earned Premiums, net of reinsurance</b>					
Gross premiums written	4	366,766		339,893	
Outward reinsurance premiums		<u>(117,747)</u>		<u>(92,964)</u>	
Net premiums written			249,019		246,929
Change in the provision for unearned premiums:					
Gross amount		(273)		(21,551)	
Reinsurers' share		<u>550</u>		<u>(4,378)</u>	
Change in the net provision for unearned premiums			277		(25,929)
Earned premiums, net of reinsurance			249,296		221,000
<b>Other technical income, net of reinsurance</b>			-		504
<b>Allocated investment return transferred from the non-technical account</b>			3,294		3,518
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount	6	(201,663)		(149,668)	
Reinsurers' share	6	<u>62,906</u>		<u>45,707</u>	
Net Claims paid			(138,757)		(103,961)
Change in the provision for claims					
Gross amount		(71,730)		(34,057)	
Reinsurers' share		<u>40,306</u>		<u>3,563</u>	
Change in the net provision for claims			(31,424)		(30,494)
Claims incurred, net of reinsurance			(170,181)		(134,455)
<b>Net operating expenses</b>	7		<u>(94,097)</u>		<u>(86,188)</u>
<b>Balance on the technical account for general business</b>			<u>(11,688)</u>		<u>4,379</u>

All operations are continuing.

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UNDERWRITING AGENCY LIMITED

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## Statement of Profit or Loss Account: Non-technical account for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
<b>Balance on the technical account - general business</b>		<b>(11,688)</b>	<b>4,379</b>
Investment income	10	4,828	6,479
Unrealised losses on investments		(1,117)	(2,570)
Investment expenses and charges		(417)	(391)
Allocated investment return transferred to general business technical account		(3,294)	(3,518)
Investment return on capital provided by members		3,244	2,564
Profit on foreign exchange		635	5,060
<b>(Loss) / Profit for the financial year</b>		<b>(7,808)</b>	<b>12,003</b>

## Statement of Other Comprehensive Income for the year ended 31 December 2017

	2017 £000	2016 £000
<b>(Loss) / Profit for the financial year</b>	<b>(7,808)</b>	<b>12,003</b>
Foreign exchange on translation	(10,425)	21,800
<b>Total comprehensive (loss) / profit for the year</b>	<b>(18,233)</b>	<b>33,803</b>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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## Balance Sheet – Assets at 31 December 2017

	Notes	2017 £000	2016 £000
Investments			
Financial Investments	11	351,452	370,226
Deposits with ceding undertakings	16	295	317
Reinsurers' share of technical provisions			
Provision for unearned premiums	6	50,257	52,757
Claims outstanding	6	177,491	148,070
		227,748	200,827
Debtors:			
Amounts due within one year			
Debtors arising out of direct insurance operations	12	119,740	126,759
Debtors arising out of reinsurance operations	12	41,859	47,748
Other Debtors	13	86,186	67,234
		247,785	241,741
Amounts due after one year			
Debtors arising out of direct insurance operations	12	2	69
Debtors arising out of reinsurance operations	12	2,635	4
		2,637	73
Other assets			
Cash at bank and in hand		38,675	23,210
Overseas deposits		22,763	23,598
		61,438	46,808
Prepayments and accrued income			
Accrued interest and rent		2,198	
Deferred acquisition costs	7	40,226	28,169
Other prepayments and accrued income		544	812
		42,968	28,981
<b>Total assets</b>		<b>934,323</b>	<b>888,973</b>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Balance Sheet – Liabilities at 31 December 2017

	Notes	2017 £000	2016 £000	2016 £000	2016 £000
Capital and Reserves					
Member's Balance			125,586		145,465
Technical provisions					
Provision for unearned premiums	6	176,433		185,441	
Claims outstanding	6	476,825		431,675	
			653,258		617,116
Creditors					
Amounts due within one year					
Creditors arising out of direct insurance operations	15	7,073		2,193	
Creditors arising out of reinsurance operations	15	61,431		57,717	
Other Creditors	14	72,612		65,388	
			141,116		125,298
Amounts due after one year					
Creditors arising out of reinsurance operations			217		-
Accruals and deferred income			14,146		1,094
<b>Total liabilities</b>			<b>934,323</b>		<b>888,973</b>

The financial statements on pages 14 to 41 were approved by the Board of Navigators Underwriting Agency Limited on 14<sup>th</sup> March 2018 and were signed on its behalf by



P Davenport  
Director  
16<sup>th</sup> March 2018

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Statement of Changes in Members' Balances for the year ended 31 December 2017

	2017 £000	2016 £000
Member balances brought forward at 1 January	145,465	119,132
Total comprehensive (loss) / profit for the year	(18,233)	33,803
Distribution of profit	(36,200)	(18,423)
Profits added to funds in syndicate	34,554	10,953
Member balances carried forward at 31 December	<u>125,586</u>	<u>145,465</u>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Statement of Cash Flows for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
Operating result		(7,808)	12,003
Increase in gross technical provisions		36,142	133,658
Increase in reinsurers' share of gross technical provisions		(26,921)	(27,279)
Decrease / (increase) in debtors		6,863	(90,111)
Increase in creditors		1,646	23,224
Investment return		(6,538)	(6,082)
Other		835	-
<b>Net cash flows from operating activities</b>		<b>4,219</b>	<b>45,412</b>
<b>Cash flows from investing activities</b>			
Purchase of equity and debt instruments		(150,272)	(199,044)
Sale of equity and debt instruments		142,719	202,736
Investment income received		4,510	2,104
Foreign exchange		15,553	(49,572)
<b>Net cash flows from investing activities</b>		<b>12,510</b>	<b>(43,775)</b>
<b>Cash flows from financing activities</b>			
Distribution of profit		36,200	(18,423)
Profits added to funds in syndicate		34,554	10,953
<b>Net cash flows from investing activities</b>		<b>70,753</b>	<b>(7,470)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>15,083</b>	<b>(5,835)</b>
Cash and cash equivalents at 1 January		23,210	32,884
Foreign exchange on cash and cash equivalents		382	(3,839)
<b>Cash and cash equivalents at 31 December</b>		<b>38,675</b>	<b>23,210</b>



# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### Notes to the financial statements at 31 December 2017

#### 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 in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, including Financial Reporting Standard 102 (FRS 102). FRS 102 requires the application of Financial Reporting Standard 103 (FRS 103) in relation to insurance contracts.

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

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 business accepted and assessments of underwriting conditions.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### 2. Accounting policies (continued)

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged.

#### Premiums written

Premiums written comprise premiums on contracts inception 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).

#### Claims provisions and related recoveries

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.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### 2. Accounting policies (continued)

#### Claims provisions and related recoveries (continued)

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 revalued 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.

#### 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.

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. For investments measured at amortised cost, realised gains and losses represents the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date, the purchase price).

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

SYNDICATE 1221

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### 2. Accounting policies (continued)

#### Investment return (continued)

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investment disposed of in the current period. Investment return is initially recorded in the non-technical account. The return is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position. Bank overdrafts that are repayable on demand and form an integral part of the syndicate's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### Identification and measurement of impairment of financial assets

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or 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.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### 2. Accounting policies (continued)

#### Taxation (continued)

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.

### 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.

#### 2017

	<b>Gross Written Premium £000</b>	<b>Reinsurance Written Premium £000</b>	<b>Net Written Premium £000</b>
United Kingdom	85,497	(27,448)	58,049
Other EU Countries	70,120	(22,511)	47,609
USA	70,387	(22,597)	47,790
Other	140,762	(45,191)	95,571
<b>Total</b>	<b>366,766</b>	<b>(117,747)</b>	<b>249,019</b>

#### 2016

	<b>Gross Written Premium £000</b>	<b>Reinsurance Written Premium £000</b>	<b>Net Written Premium £000</b>
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
<b>Total</b>	<b>339,893</b>	<b>(92,964)</b>	<b>246,930</b>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### 3. Risk management (continued)

#### a) Insurance risk (continued)

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

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 on profit or loss and equity.

	2017		2016	
	5 percent increase	5 percent decrease	5 percent increase	5 percent decrease
Direct insurance:				
Marine	(5,513)	5,513	(5,305)	5,305
Transport	(782)	782	(539)	539
Energy - Marine	(405)	405	(629)	629
Energy - Non marine	(99)	99	(361)	361
Fire and other damage to property	(1,394)	1,394	(2,233)	2,233
Third party liability	(4,361)	4,361	(3,872)	3,872
Other	(1,226)	1,226	(126)	126
	(13,779)	13,779	(13,065)	13,065
Reinsurance	(1,188)	1,188	(1,121)	1,121
Total	<u>(14,967)</u>	<u>14,967</u>	<u>(14,186)</u>	<u>14,186</u>

#### 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.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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

## Notes to the financial statements at 31 December 2017 (continued)

### 3. Risk management (continued)

#### c) Credit risk (continued)

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

2017	AAA £000	AA £000	A £000	BBB £000	BB or less £000	Not rated £000	Total £000
Financial Investments							
Debt securities and Other fixed Income	61,165	94,221	146,206	45,505	3,859	329	351,285
Deposits with Credit institutions	—	—	—	—	—	167	167
Shares and other variable yield securities and unit trusts	—	—	—	—	—	—	—
	<u>61,165</u>	<u>94,221</u>	<u>146,206</u>	<u>45,505</u>	<u>3,859</u>	<u>496</u>	<u>351,452</u>
Reinsurers' share of the outstanding claims including IBNR	—	2,634	172,163	—	2,694	—	177,491
Reinsurance Debtors	—	445	35,595	—	445	8,009	44,494
Deposits with ceding undertakings	—	—	—	—	—	295	295
Overseas Deposits	8,123	1,172	2,334	1,342	1,611	8,181	22,763
Cash at bank and in hand	—	36,143	2,532	—	—	—	38,675
<b>Total Credit Risk Exposure</b>	<u><b>69,288</b></u>	<u><b>134,615</b></u>	<u><b>358,830</b></u>	<u><b>46,847</b></u>	<u><b>8,609</b></u>	<u><b>16,981</b></u>	<u><b>635,170</b></u>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### 3. Risk management (continued)

#### c) Credit risk (continued)

2016	AAA £000	AA £000	A £000	BBB £000	BB or less £000	Not rated £000	Total £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	—	—	—	—	—	—	—
	<u>79,547</u>	<u>85,808</u>	<u>155,806</u>	<u>43,553</u>	<u>—</u>	<u>5,512</u>	<u>370,226</u>
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
<b>Total Credit Risk Exposure</b>	<u><b>88,976</b></u>	<u><b>111,600</b></u>	<u><b>340,440</b></u>	<u><b>45,599</b></u>	<u><b>—</b></u>	<u><b>26,558</b></u>	<u><b>613,173</b></u>

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

Financial assets that are past due but not impaired						
2017	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	84,820	26,536	8,384	—	2	119,742
Other Debtors	86,186	—	—	—	—	86,186
<b>Total</b>	<u><b>171,006</b></u>	<u><b>26,536</b></u>	<u><b>8,384</b></u>	<u><b>—</b></u>	<u><b>2</b></u>	<u><b>205,928</b></u>



# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### 3. Risk management (continued)

#### c) Credit risk (continued)

2016	Financial assets that are past due but not impaired					Total £000
	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	
Debtors arising out of direct insurance operations	80,549	23,192	23,018	—	69	126,828
Other Debtors	67,231	—	—	—	3	67,234
<b>Total</b>	<b>147,780</b>	<b>23,192</b>	<b>23,018</b>	<b>—</b>	<b>72</b>	<b>194,062</b>

#### 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.

	Up to 1 Year £000	1-3 Years £000	3-5 Years £000	Over 5 years £000	Total £000
2017					
Financial Investments	351,452	—	—	—	351,452
Insurance and Reinsurance Receivables	161,599	2,636	—	—	164,235
Cash at Bank and In hand	38,675	—	—	—	38,675
Net Insurance claims outstanding	(16,613)	(164,185)	(65,580)	(52,956)	(299,334)
Creditors	(141,116)	(217)	—	—	(141,333)
Accruals and Deferred Income	(14,146)	—	—	—	(14,146)
<b>Total</b>	<b>379,852</b>	<b>(161,765)</b>	<b>(65,580)</b>	<b>(52,956)</b>	<b>99,548</b>
2016					
Financial Investments	370,226	—	—	—	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)
<b>Total</b>	<b>333,693</b>	<b>(102,603)</b>	<b>(40,441)</b>	<b>(32,630)</b>	<b>158,019</b>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### 3. Risk management (continued)

#### 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:

	2017		2016	
	Year-end rate	Average rate	Year-end rate	Average rate
Euro	1.140	1.144	1.169	1.237
US dollar	1.343	1.284	1.242	1.370
Canadian dollar	1.719	1.673	1.679	1.812

The table below details the Syndicate's assets and liabilities, in converted Sterling by currency at 31 December 2017:

2017	GBP £000	USD £000	CAD £000	EUR £000	AUD £000	JPY £000	OTH £000	Total £000
Financial investments	15	290,308	61,129	—	—	—	—	351,452
Overseas Deposits	—	3,316	10,067	—	936	—	8,444	22,763
Reinsurers' share of technical provisions	48,611	168,621	10,516	—	—	—	—	227,748
Insurance and reinsurance receivables	72,383	93,982	5,429	(8,094)	66	—	470	164,236
Cash and cash equivalents	22,968	10,852	2,945	1,910	—	—	—	38,675
Other assets	38,892	75,156	3,215	13,618	3	(1)	(1,434)	129,449
<b>Total assets</b>	<b>182,869</b>	<b>642,235</b>	<b>93,301</b>	<b>7,434</b>	<b>1,005</b>	<b>(1)</b>	<b>7,480</b>	<b>934,323</b>
Technical provisions	195,186	362,357	30,677	65,038	—	—	—	653,258
Insurance and reinsurance payables	11,634	47,822	1,433	7,848	—	—	(16)	68,721
Other liabilities	16,333	63,356	2,332	2,473	32	—	2,232	86,758
<b>Total liabilities</b>	<b>223,153</b>	<b>473,535</b>	<b>34,442</b>	<b>75,359</b>	<b>32</b>	<b>—</b>	<b>2,216</b>	<b>808,737</b>
<b>Net Assets</b>	<b>(40,284)</b>	<b>168,700</b>	<b>58,859</b>	<b>(67,925)</b>	<b>973</b>	<b>(1)</b>	<b>5,264</b>	<b>125,586</b>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### Risk management (continued)

#### e) Market risk (continued)

2016	GBP £000	USD £000	CAD £000	EUR £000	AUD £000	JPY £000	OTH £000	Total £000
Financial investments	15	307,972	62,239	—	—	—	—	370,226
Overseas Deposits	—	6,441	11,220	—	652	—	5,285	23,598
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	4,795	(3,170)	1,918	—	—	—	23,210
Other assets	25,736	65,954	2,710	2,052	—	—	80	96,532
<b>Total assets</b>	<b>150,859</b>	<b>637,253</b>	<b>90,848</b>	<b>3,970</b>	<b>656</b>	<b>—</b>	<b>5,387</b>	<b>888,973</b>
Technical provisions	167,834	413,617	35,665	—	—	—	—	617,116
Insurance and reinsurance payables	13,648	44,411	1,398	453	—	—	—	59,910
Other liabilities	1,554	60,981	1,663	—	14	—	2,270	66,483
<b>Total liabilities</b>	<b>183,036</b>	<b>519,009</b>	<b>38,726</b>	<b>453</b>	<b>14</b>	<b>—</b>	<b>2,270</b>	<b>743,509</b>
<b>Net Assets</b>	<b>(32,177)</b>	<b>118,244</b>	<b>52,122</b>	<b>3,517</b>	<b>642</b>	<b>—</b>	<b>3,117</b>	<b>145,464</b>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### Risk management (continued)

#### e) Market risk (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.

	<b>2017</b> <b>Profit or</b> <b>loss for</b> <b>the year</b> <b>£000</b>	<b>2016</b> <b>Profit or</b> <b>loss for</b> <b>the year</b> <b>£000</b>
<b>Interest rate risk</b>		
+ 50 basis points shift in yield curves	(4,397)	(4,811)
-50 basis points shift in yield curves	4,432	4,775
<b>Currency risk</b>		
10 percent increase in GBP/Euro exchange rate	(6,792)	352
10 percent decrease in GBP/Euro exchange rate	6,792	(352)
10 percent increase in GBP/US Dollar exchange rate	16,870	11,824
10 percent decrease in GBP/US Dollar exchange rate	(16,870)	(11,824)
10 percent increase in GBP/Canadian Dollar exchange rate	5,886	5,212
10 percent decrease in GBP/Canadian Dollar exchange rate	(5,886)	(5,212)

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UNDERWRITING AGENCY LIMITED

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## Notes to the financial statements at 31 December 2017 (continued)

### 3. Risk management (continued)

#### f) Fair value estimate

Financial instruments that are fair valued through the profit and loss account 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.

#### 2017

	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	4,593	346,692	—	351,285
Loans and deposits with credit institutions	—	167	—	167
Total Financial Assets at Fair Value	<u>4,593</u>	<u>346,859</u>	<u>—</u>	<u>351,452</u>

#### 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	<u>9,698</u>	<u>360,528</u>	<u>—</u>	<u>370,226</u>

#### 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.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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## Notes to the financial statements at 31 December 2017 (continued)

### 3. Risk management (continued)

#### g) Capital management (continued)

##### 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 2017 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 page 16, represent resources available to meet members' and Lloyd's capital requirements.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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## Notes to the financial statements at 31 December 2017 (continued)

### 4. Analysis of underwriting results

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

2017	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Marine	50,356	48,377	(9,721)	(11,906)	(15,583)	11,167
Transport	50,561	49,636	(40,474)	(21,746)	(4,219)	(16,803)
Energy - Marine	32,327	34,514	(11,569)	(16,023)	(9,900)	(2,978)
Energy - Non marine	17,277	16,917	(15,056)	(1,125)	(1,243)	(507)
Fire and other damage to property	69,571	84,385	(107,474)	(13,579)	16,267	(20,401)
Third party liability	108,866	97,611	(67,020)	(19,665)	(1,564)	9,362
Other	11,436	9,516	(3,161)	(6,597)	(905)	(1,147)
	340,394	340,956	(254,475)	(90,641)	(17,147)	(21,307)
Reinsurance	26,372	25,537	(18,918)	(3,456)	3,163	6,326
Total	<b>366,766</b>	<b>366,493</b>	<b>(273,393)</b>	<b>(94,097)</b>	<b>(13,984)</b>	<b>(14,981)</b>

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
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	<b>339,893</b>	<b>318,342</b>	<b>(183,725)</b>	<b>(85,684)</b>	<b>(48,072)</b>	<b>861</b>

All premiums were concluded in the UK.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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at LLOYD'S

## Notes to the financial statements at 31 December 2017 (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.

	2017 £000	2016 £000
Marine, aviation and transport	7,012	4,830
Energy	(1,159)	6,237
Fire and other damage to property	(9,063)	(6,892)
Third party liability	(2,565)	(3,528)
Pecuniary Loss	1,268	(147)
Total direct	(4,507)	500
Reinsurance acceptance	4,736	(1,596)
	<u>229</u>	<u>(1,096)</u>

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 2017 in all cases.

Pure Underwriting Year	2011	2012	2013	2014	2015	2016	2017	Total
<b>Estimate of ultimate gross claims</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
at end of underwriting year	75,253	79,370	75,144	85,080	80,136	106,361	129,204	
one year later	148,237	151,505	139,361	151,727	181,862	225,634		
two years later	153,542	145,582	135,191	163,169	175,049			
three years later	146,634	140,914	121,212	165,184				
four years later	152,482	139,054	123,994					
five years later	161,958	135,055						
six years later	170,009							
Less gross Claims paid	(155,570)	(120,512)	(100,099)	(112,901)	(102,974)	(77,681)	(10,900)	
<b>Gross ultimate claims reserve</b>	14,439	14,543	23,896	52,283	72,075	147,953	118,304	443,493
Gross ultimate claims reserve for 2010 & prior years								33,332
<b>Gross claims reserves</b>								<b>476,825</b>



# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

Pure Underwriting Year	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate net claims	£000	£000	£000	£000	£000	£000	£000	£000
at end of underwriting year	52,605	48,729	46,816	52,513	55,477	75,411	83,426	
one year later	93,276	94,537	88,293	97,697	125,195	150,605		
two years later	93,905	91,153	86,345	107,308	124,235			
three years later	84,717	89,693	78,451	108,019				
four years later	82,788	91,997	78,664					
five years later	89,045	86,790						
six years later	89,454							
Less net Claims paid	(81,872)	(72,982)	(62,475)	(79,257)	(78,985)	(58,288)	(9,749)	
<b>Net ultimate claims reserve</b>	<b>7,583</b>	<b>13,808</b>	<b>16,188</b>	<b>28,762</b>	<b>45,250</b>	<b>92,317</b>	<b>73,677</b>	<b>277,585</b>
Net ultimate claims reserve for 2010 & prior years								21,749
<b>Net claims reserves</b>								<b>299,334</b>

## 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.

	2017			2016		
	Gross Provisions	Reinsurance Assets	Net	Gross Provisions	Reinsurance Assets	Net
	£000	£000	£000	£000	£000	£000
<b>Incurred claims outstanding</b>						
Claims notified	279,932	(91,259)	188,673	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 1st January	431,675	(148,070)	283,605	342,108	(123,665)	218,443
Change in prior year provisions	155,084	(58,685)	96,399	88,222	(20,656)	67,566
Expected cost of current year claims	118,309	(44,527)	73,782	95,502	(28,614)	66,888
Claims paid during the year	(201,663)	62,906	(138,757)	(149,668)	45,707	(103,961)
Effects of movements in exchange rates	(26,580)	10,885	(15,695)	55,511	(20,842)	34,669
Balance as at 31st December	<u>476,825</u>	<u>(177,491)</u>	<u>299,334</u>	<u>431,675</u>	<u>(148,070)</u>	<u>283,605</u>
Claims notified	279,002	(94,413)	184,588	279,932	(91,259)	188,673
Claims incurred but not reported	197,823	(83,078)	114,745	151,743	(56,811)	94,932
Balance at 31st December	<u>476,825</u>	<u>(177,491)</u>	<u>299,334</u>	<u>431,675</u>	<u>(148,070)</u>	<u>283,605</u>
<b>Unearned Premiums</b>						
Balance at 1st January	185,441	(52,757)	132,684	141,350	(49,883)	91,467
Premiums Written during the year	366,766	(117,747)	249,019	339,893	(92,964)	246,929
Premiums earned during the year	(366,493)	117,196	(249,297)	(318,342)	97,342	221,000
Effects of exchange rates	(9,281)	3,051	(6,231)	22,540	(7,252)	15,287
Balance at 31st December	<u>176,433</u>	<u>(50,257)</u>	<u>126,176</u>	<u>185,441</u>	<u>(52,757)</u>	<u>132,683</u>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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at LLOYD'S

## Notes to the financial statements at 31 December 2017 (continued)

### 7. Net operating expenses

Administrative expenses include:

	2017 £000	2016 £000
Acquisition costs	99,258	84,561
Change in deferred acquisition costs	(213)	(11,425)
Administrative expenses	13,287	27,042
Personal Expenses	7,971	6,991
Reinsurance commissions and profit participations	(26,206)	(20,980)
	<u>94,097</u>	<u>86,188</u>

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

	2017 £000	2016 £000
Balance at 1 January	28,169	16,838
Incurred costs deferred	112,213	84,561
Amortisation	(100,156)	(73,230)
Balance at 31 December	<u>40,226</u>	<u>28,169</u>

Administrative expenses include:

	2017 £000	2016 £000
Auditor's remuneration		
-Fees payable to the Syndicate's auditor for the audit of these financial statements	122	111
-Fees payable to the Syndicate's auditor and its associates in respect of: other services pursuant to legislation	99	99
	<u>221</u>	<u>210</u>

# NAVIGATORS

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## Notes to the financial statements at 31 December 2017 (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.

	2017 £000	2016 £000
Wages and salaries	11,077	12,110
Social security costs	2,083	2,315
Other pension costs	1,474	1,751
	<u>14,634</u>	<u>16,176</u>

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

	2017 £000	2016 £000
Administration and finance	57	58
Underwriting	37	42
Claims	14	12
	<u>108</u>	<u>112</u>

### 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:

	2017 £000	2016 £000
Emoluments	1,099	1,536
Pension costs	103	157
	<u>1,202</u>	<u>1,693</u>

The active underwriter received the following remuneration charged as a Syndicate expense:

	2017 £000	2016 £000
Emoluments	216	227
Pension costs	28	29
	<u>244</u>	<u>256</u>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

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## Notes to the financial statements at 31 December 2017 (continued)

### 10. Investment return

	2017 £000	2016 £000
Investment income		
Income from investments at fair value through profit or loss	5,312	5,974
Gains on the realisation of investments designated on initial recognition at fair value through profit or loss	149	1,135
Losses on the realisation of investments designated on initial recognition at fair value through profit or loss	(633)	(630)
	<u>4,828</u>	<u>6,479</u>

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.

	2017 £000	2016 £000
Average amount of Syndicate funds available for investment during the year		
Canadian	60,795	50,831
US dollar	295,658	286,386
Total funds available for investment, in sterling	<u>356,453</u>	<u>337,217</u>
Total investment return	3,294	3,518
Annual investment yield		
Canadian	0.40%	0.94%
US dollar	1.03%	1.06%
Total annual investment yield, in sterling	<u>0.92%</u>	<u>1.04%</u>

### 11. Financial investments

	Market value		Cost	
	2017 £000	2016 £000	2017 £000	2016 £000
Shares and other variable yield securities	-	-	-	-
Debt securities and other fixed income securities	351,285	370,047	359,340	369,022
Deposits with credit institutions	167	179	167	179
	<u>351,452</u>	<u>370,226</u>	<u>359,507</u>	<u>369,201</u>

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1

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## Notes to the financial statements at 31 December 2017 (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

	2017 £000	2016 £000
Reinsurance profit commissions	2,324	3,880
US Federal income tax	1,265	1,271
Inter-company balances	81,117	61,281
Over-rider commission	85	79
Amounts due from consortium members	-	-
VAT recoverable	558	496
Sundry Debtors	837	227
	<u>86,186</u>	<u>67,234</u>

### 14. Other Creditors

	2017 £000	2016 £000
Balances due to Managing Agent and US Parent	17,317	10,075
Investment purchases	5	91
Distribution creditor	45,325	49,027
Profit commission payable	5,380	3,571
Sundry creditors	4,585	2,624
	<u>72,612</u>	<u>65,388</u>

### 15. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	38,675	23,210
Deposits with credit institutions	-	-
<b>Total cash and cash equivalents</b>	<u>38,675</u>	<u>23,210</u>

### 16. 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.

# NAVIGATORS

UNDERWRITING AGENCY LIMITED

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## Notes to the financial statements at 31 December 2017 (continued)

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 £5.2m (2016: £4.9m).

### 17. 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.

