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NAVIGATORS
UNDERWRITING AGENCY LIMITED

SYNDICATE 1221
at LLOYD'S

Syndicate Annual Accounts
31 December 2018

NAVIGATORS
UNDERWRITING AGENCY LIMITED

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

Directors and administration

Managing Agent
Navigators Underwriting Agency Limited

Directors
C L Bach III
H C Bassett*
M J Casella* (resigned 15 March 2019)
P J Davenport (resigned 5 October 2018)
C M DeFalco*
S A Galanski*
G E Johnson*
C D Short*
C D Sprott
M J Sullivan*

* Non-executive

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

Managing Agent's Registered Number
01380715

Active Underwriter
Colin D Sprott

Bankers
Citibank N.A.
HSBC
Royal Bank of Canada

Investment Managers
New England Asset Management Limited

Registered Auditor
KPMG LLP, London

Directors' Interests
None of the Directors of the managing agent have any
Participation in the Syndicate's premium income capacity

Solicitor
Norton Rose Fulbright LLP, London

Strategic Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report for Syndicate 1221 for the year ended 31 December 2018. The Syndicate's Managing Agent is a company registered in England and Wales.

Principal activity

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

The capacity for Syndicate 1221 ("the Syndicate") in 2018, 2017, and 2016 was £255m, £270m and £255m 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.

The Syndicate continues to write business through four divisions: Marine, NavPro, Property & Casualty and NavRe.

Results summary

The Syndicate recorded a net loss for the year of £3.6m compared to a loss of £7.8m for the prior year. This loss comprised an underwriting loss of £11.5m (2017: underwriting loss of £15.0m), an investment result of £5.8m (2017: £6.5m) and foreign exchange gains of £2.0m (2017: £0.6m).

The Syndicate's combined ratio for 2018 was 104.66% (2017: 106.01%).

The underwriting loss for the year was primarily driven by a significant number of large market losses, arising in our Marine and NavPro divisions. Our Property & Casualty division, which comprises our NavTech, Political Violence and Terrorism, and Casualty classes, and our NavRe division both contributed positively to our underwriting result in 2018. Both divisions recording sub 90% combined ratios.

Gross written premiums for 2018 were £332.4m, reduced from £366.8m in 2017. This reduction was primarily driven by reduced volumes in our Marine division, including the transfer of European domiciled business to a sister company, and the discontinuance of the Property line of business.

Performance and Measurement

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

	2018	2017	%
	£000	£000	
Gross premiums written	332,382	366,766	(9.37)%
Net premiums written	249,283	249,019	0.11%
Net earned premiums	246,807	249,296	(1.00)%
Net operating expenses	97,423	94,097	3.53%
Investment income	5,139	4,828	6.44%
Combined Ratio	104.66%	106.01%	

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 decreased by 9.37%. Reduced premium in Marine (predominantly Cargo, Hull and Transport) and the discontinuance of Property are partly offset by growth in NavPro and Casualty within the Property and Casualty division.

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

Net written premium and net earned premium have increased and decreased by 0.11% and 1.00% respectively. The small movements, despite the larger reduction in gross premiums written, are due to reduced ceded reinsurance expenditure within Marine and Property based on the reduced gross exposures, whilst the growth in gross premium in NavPro and Casualty was not accompanied by an equivalent increase in ceded premiums.

Net operating expenses are 3.53% higher than in 2017. This is largely due to an increase in administration expenses following one-off project costs incurred during 2018.

Investment income, which excludes unrealized gains and losses, has increased by 6.44% from prior year due to an increase in investment yields over the course of the year. The overall investment result has reduced to £5.8m from £6.5m in the prior year due to an increase in unrealised losses recorded in 2018.

The Syndicate's combined ratio has decreased from 106.01% in 2017 to 104.66% in 2018. The prior year was impacted by significant losses from the cat activity arising from Hurricanes Harvey, Irma and Maria, whilst the current year has been more heavily impacted by large risk losses in Marine and Professional and some resultant reserve strengthening in these divisions. This was offset to some extent by prior year reserve releases to the aforementioned 2017 catastrophe losses.

Member's Funds

The member's funds are £130.6m (2017: £125.6m). The increase is due to other comprehensive income of £8.7m, arising from foreign exchange gains on translation offsetting the net loss for the year.

Market Review and Strategy

In 2018, the London insurance market continued to face significant challenges from over-capacity and the growth of local and regional hubs. There was however, some evidence in the final quarter of 2018 that the rigorous planning process imposed by Lloyd's, as well as market participants own assessment of the competitive market environment, was having an impact on pricing, with Navigators recording significant rate rises on business written in Q4 in Marine and NavPro, in particular.

Despite the disappointing underwriting results for the Syndicate, 2018 marked a year of continued progress across a number of initiatives.

We have continued to re-balance the overall portfolio of the Syndicate with a focus on growing the more profitable segments of our business, whilst reducing our exposure in areas, which, in our view, continue to be under-priced.

During 2018, we successfully renewed c.£25m of European domiciled premium off the books of the Syndicate and onto other Navigators group companies. Further to this and the opening of the Lloyd's Brussels operation, we believe we have therefore materially mitigated the impact of Brexit on the Syndicate.

We continue to invest in our infrastructure, whilst seeking to deliver operational efficiencies, through process improvement and smarter use of technology.

The Syndicate continues to be the main underwriting platform for Navigators International operations. Our underwriting results are reported to management under four divisions, Marine, NavPro, Property & Casualty and NavRe.

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

Marine

We continue to write a broad section of the Marine market, concentrating on Cargo and Transportation, Marine and Energy Liability and Specie. During 2018, we significantly reduced our exposure to the Hull sector, whilst also reducing our Cargo portfolio, albeit still maintaining a meaningful market presence in this class.

The market for our Marine lines of business remained very competitive during 2018, although a number of our competitors began to withdraw either completely or from certain segments of the market towards the end of the year. This has resulted in some improved pricing, with the Syndicate reporting strong rate change in the Cargo class in particular.

Overall results for the division were disappointing, with an underwriting loss reported for the second consecutive year. Our strategy going forward is to be highly focussed on those profitable sections of our portfolio, whilst reducing our exposure to under-priced books of business.

NavPro

Our NavPro division covers the Professional class of business, incorporating Errors and Omissions ("E&O"), Directors and Officers ("D&O"), Warranties and Indemnities ("W&I") and Financial Institutions ("FI").

During 2018 we successfully grew gross premiums written in our target markets, with a strong contribution from all four classes.

We suffered a number of large risk losses in both D&O and E&O, resulting in reserve strengthening, which led the division to an overall loss for the year. Both W&I and FI had impressive results during 2018, with both classes delivering strong underwriting profits.

The market environment remains competitive, although we are seeing some hardening of rates across large parts of the D&O and E&O portfolio in particular.

Property and Casualty

Our Property and Casualty division ("P&C") comprises our NavTech, Casualty and Political Violence and Terrorism ("PV&T") classes, as well as the run-off of our discontinued Property class.

NavTech is the largest class within the division, writing a broad portfolio of Onshore and Offshore energy business and an Operational Engineering book of business.

Casualty includes General Liability, augmented by Life Sciences and Environmental books of business.

Gross premiums written for the division were stable year on year, with reductions in Property following our exit from this class during 2017, being offset by growth in all three continuing classes.

The division recorded a strong underwriting result, with a sub 90% combined ratio, with both NavTech and PV&T recording profitable results. Casualty, which is still in its early stages of growth, recorded a small underwriting loss, whilst Property also contributed a small profit further to reserve releases in the year.

NavRe

Our NavRe division forms part of the wider Navigators Group reinsurance offering, with the Syndicate providing access to London Market business, which may not otherwise be written.

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

The division writes a stable portfolio of business, concentrated on International Property Treaty and Marine Reinsurance.

The division recorded a very strong underwriting profit during the year, in spite of the back-drop of continued significant cat activity that blighted the latter half of 2018.

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 and capital setting processes and as an element of its risk management framework. The Board has identified the principal risks facing the Syndicate and has established documented strategies for their assessment, mitigation and monitoring. A Risk & 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 detailed below. It should also be noted that over the last few years Brexit has been a key risk and required management focus. Moving into 2019 the proposed integration with The Hartford will require robust risk assessment and management attention.

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 have 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.

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

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 this 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 and 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 there is on-going monitoring of liquidity metrics, which is overseen by the 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 from the 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

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

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.

- 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.

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

- 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 Board.

Brexit

At present, insurance undertakings in the UK are authorised to access business located in the EEA on a "freedom of services" or under the "right of establishment" through the EU passporting system. Once the UK has left the EU, Lloyd's underwriters will lose their passporting right and will not be authorised to carry on (re) insurance business for risks located in the EEA and Monaco.

Lloyd's has established a new insurance company based in Brussels (Lloyd's Insurance Company S.A., known as Lloyd's Brussels), to underwrite non-life insurance and facultative reinsurance risks located in EEA countries with effect from 1 January 2019.

As at 31 January 2019, fifty-five policies worth in the region of £2.9m were underwritten by the Syndicate through Lloyd's Brussels, as well as the creation of various binders and line slips under which business will be written throughout the year. The Syndicate will be assessing the advantages of integrating Lloyd's Brussels technologies with its own business process for greater efficiencies as this area is developed.

All claims can be paid as normal until the UK leaves the European Union and during any transition period. Lloyd's is working on transferring all non-life European Economic Area (EEA) business that has been written by the Lloyd's Market between 1993 and 2018 to Lloyd's Brussels before the end of 2020 via a Part VII portfolio transfer. Lloyd's has announced that it instructs underwriters to honour their contractual commitments regardless of the outcome of the political negotiations which Navigators intends to do.

By order of the Board

C L Bach III
Director
22 March 2019

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report for the year ended 31 December 2018.

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').

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 £244m for the 2019 year of account. This represents a decrease in capacity of £11m. The reduction in 2019 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 in accordance with our Brexit plan.

Directors

The Directors of the Managing Agent who served during the year ended 31 December 2018 and up to the date of this report were as follows:

C L Bach III
H C Bassett
M J Casella (resigned 15 March 2019)
P J Davenport (resigned 5 October 2018)
C M DeFalco
S A Galanski
G E Johnson
C D Short
C D Sprott
M J Sullivan

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 auditor

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 auditor

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.

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 Managing Agent if a claim is made against them in their capacity as a Director of that company.

Post Balance Sheet events

An agreement was entered into with The Hartford Financial Services Group, Inc., known as "The Hartford", a United States based company in Connecticut for the purchase of The Navigators Group for $2.1bn. It is expected that this will be completed during the first half of 2019.

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

By order of the Board

C L Bach III
Director
22 March 2019

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;
- 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
22 March 2019

Independent Auditor's report to the member of Syndicate 1221

Opinion

We have audited the financial statements of Syndicate 1221 for the year ended 31 December 2018 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 2018 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.

Other matter

There are uncertainties related to the effects of Brexit. These are relevant to understanding our audit of the Syndicate. All of these depend on assessments of the future economic environment and the Syndicate's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Syndicate's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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.

Independent Auditor's report to the member of Syndicate 1221 (continued)

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.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 13, 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.

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.

9Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
22 March 2019

Statement of Profit or Loss Account: Technical account – General business
for the year ended 31 December 2018

	Notes	**2018** £000	**2018** £000	2017 £000	2017 £000
Earned premiums, net of reinsurance					
Gross premiums written	4	**332,382**		366,766	
Outward reinsurance premiums		**(83,099)**		(117,747)	
Net premiums written			**249,283**		249,019
Change in the provision for unearned premiums					
Gross amount		**3,907**		(273)	
Reinsurers' share		**(6,383)**		550	
Change in the net provision for unearned premiums			**(2,476)**		277
Earned premiums, net of reinsurance			**246,807**		249,296
Other technical income, net of reinsurance			**37**		-
Allocated investment return transferred from the non-technical account			**3,049**		3,294
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	6	**(205,350)**		(201,663)	
Reinsurers' share	6	**72,685**		62,906	
Net claims paid			**(132,665)**		(138,757)
Change in the provision for claims					
Gross amount		**(22,380)**		(71,730)	
Reinsurers' share		**(5,831)**		40,306	
Change in the net provision for claims			**(28,211)**		(31,424)
Claims incurred, net of reinsurance			**(160,876)**		(170,181)
Net operating expenses	7		**(97,423)**		(94,097)
Balance on the technical account for general business			**(8,406)**		(11,688)

All operations are continuing.

The accompanying notes form part of these financial statements

Statement of Profit or Loss Account: Non-technical account
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Balance on the technical account for general business		**(8,406)**	(11,688)
Investment income	10	**5,139**	4,828
Unrealised losses on investments		**(1,688)**	(1,117)
Investment expenses and charges		**(402)**	(417)
Allocated investment return transferred to general business technical account		**(3,049)**	(3,294)
Investment return on capital provided by members		**2,764**	3,244
Profit on foreign exchange		**2,036**	636
Loss for the financial year		**(3,606)**	(7,808)

Statement of Other Comprehensive Income
for the year ended 31 December 2018

	2018 £000	2017 £000
Loss for the financial year	**(3,606)**	(7,808)
Foreign exchange on translation	**8,663**	(10,425)
Total comprehensive profit /(loss) for the year	**5,057**	(18,233)

The accompanying notes form part of these financial statements

Balance Sheet – Assets
at 31 December 2018

		2018		2017	
	Notes	**£000**	**£000**	£000	£000
Investments					
Financial investments	11		**374,759**		351,452
Deposits with ceding undertakings	16		**320**		295
Reinsurers' share of technical provisions					
Provision for unearned premiums	6	**45,237**		50,257	
Claims outstanding	6	**178,188**		177,491	
			223,425		227,748
Debtors:					
Amounts due within one year					
Debtors arising out of direct insurance operations	12	**97,258**		119,740	
Debtors arising out of reinsurance operations	12	**50,578**		41,859	
Other debtors	13	**92,296**		86,186	
			240,132		247,785
Amounts due after one year					
Debtors arising out of direct insurance operations	12	**106**		2	
Debtors arising out of reinsurance operations	12	**19**		2,635	
			125		2,637
Other assets					
Cash at bank and in hand		**46,659**		38,675	
Overseas deposits		**36,961**		22,763	
			83,620		61,438
Prepayments and accrued income					
Accrued interest and rent		**2,743**		2,198	
Deferred acquisition costs	7	**38,524**		40,226	
Other prepayments and accrued income		**1,667**		544	
			42,934		42,968
Total assets			**965,315**		934,323

The accompanying notes form part of these financial statements

Balance Sheet – Liabilities
at 31 December 2018

	Notes	2018 £000	2018 £000	2017 £000	2017 £000
Capital and Reserves					
Member's balance			**130,588**		125,586
Technical provisions					
Provision for unearned premiums	6	**177,550**		176,433	
Claims outstanding	6	**516,080**		476,825	
			693,630		653,258
Creditors					
Amounts due within one year					
Creditors arising out of direct insurance operations	3d	**4,542**		7,073	
Creditors arising out of reinsurance operations	3d	**51,579**		61,431	
Other creditors	3d,14	**72,950**		72,612	
			129,071		141,116
Amounts due after one year					
Creditors arising out of reinsurance operations	3d		**108**		217
Accruals and deferred income	3d		**11,918**		14,146
Total liabilities			**965,315**		934,323

The financial statements on pages 16 to 42 were approved by the Board of Navigators Underwriting Agency Limited on 15th March 2019 and were signed on its behalf by

C L Bach III
Director
22 March 2019

The accompanying notes form part of these financial statements

Statement of Changes in Members' Balances
for the year ended 31 December 2018

	2018	2017
	£000	£000
Member's balance brought forward at 1 January	**125,586**	145,465
Total comprehensive profit /(loss) for the year	**5,057**	(18,233)
Distribution of profit	**(10,345)**	(36,200)
Profits added to funds in syndicate	**10,290**	34,554
Member's balance carried forward at 31 December	**130,588**	125,586

The accompanying notes form part of these financial statements

Statement of Cash Flows
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Operating result		**(3,606)**	(7,808)
Increase in gross technical provisions		**40,372**	36,142
Decrease / (increase) in reinsurers' share of gross technical provisions		**4,323**	(26,921)
Decrease in debtors		**7,646**	6,863
(Decrease) / increase in creditors		**(11,811)**	1,646
Movement in other assets/liabilities		**(14,393)**	-
Investment return		**(5,813)**	(6,538)
Other		**(6,101)**	835
Net cash flows from operating activities		**10,617**	4,219
Cash flows from investing activities			
Purchase of equity and debt instruments		**(109,601)**	(150,272)
Sale of equity and debt instruments		**98,451**	142,719
Investment income received		**9,338**	4,510
Foreign exchange		**-**	15,553
Net cash flows from investing activities		**(1,812)**	12,510
Cash flows from financing activities			
Distribution of profit		**(10,345)**	(36,200)
Profits added to funds in syndicate		**10,290**	34,554
Net cash flows from financing activities		**(55)**	(1,645)
Net increase in cash and cash equivalents		**8,750**	15,083
Cash and cash equivalents at 1 January		**38,675**	23,210
Foreign exchange on cash and cash equivalents		**(766)**	382
Cash and cash equivalents at 31 December		**46,659**	38,675

The accompanying notes form part of these financial statements

Notes to the Financial Statements at 31 December 2018

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

Use of judgements and estimates

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.

Notes to the Financial Statements at 31 December 2018 (continued)

2. Accounting policies (continued)

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate to reduce the likelihood of any adverse run-off deviation.

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 IBNR at the balance sheet date based on standard actuarial methods (paid and incurred, chain ladder, Bornhuetter Ferguson and initial expected loss ratios).

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.

Notes to the Financial Statements at 31 December 2018 (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.

Notes to the Financial Statements at 31 December 2018 (continued)

2. Accounting policies (continued)

Investment return (continued)

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).

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.

Notes to the Financial Statements at 31 December 2018 (continued)

2. Accounting policies (continued)

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 the member or the member's agent 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 the member on underwriting results.

Pension costs

The Syndicate does not operate any pension schemes. Navigators Management (UK) Limited ("NMUK") operates a defined contribution scheme. Pension contributions relating to working on Syndicate business are charged to the Syndicate as incurred and are included within net operating expenses.

3. Risk management

The Board of Directors of the Managing Agent has the responsibility to identify, assess and manage the risks faced by the Syndicate. The Board carries this out through documented strategies and the establishment and maintenance of the Syndicate's Risk Management Framework. The Risk & Compliance Committee, a sub-committee of the Board, meets regularly to assess the effectiveness of this framework, and the Chief Risk Officer is tasked with its daily oversight. Within the framework is a number of committees that are responsible for managing risk. These comprise the Reinsurance Security Committee, the Reserving Committee, the Underwriting and Claims Committee, and the Risk Monitoring Committee, as well as the in-house Actuarial function.

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.

2018

	Gross Premiums Written	Outwards Reinsurance Premium	Net Premiums Written
	£000	£000	£000
United Kingdom	87,060	(21,766)	65,294
Other EU Countries	36,702	(9,176)	27,526
USA	73,035	(18,260)	54,775
Other	135,585	(33,897)	101,688
Total	332,382	(83,099)	249,283

Notes to the Financial Statements at 31 December 2018 (continued)

3. Risk management (continued)

a) Insurance risk (continued)

2017

	Gross Premiums Written	Outwards Reinsurance Premiums	Net Premiums Written
	£000	£000	£000
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
Total	366,766	(117,747)	249,019

The premiums by class are shown in note 4 analysis of underwriting results.

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.

	2018		2017	
	5 percent increase	**5 percent decrease**	5 percent increase	5 percent decrease
Direct insurance:				
Marine	**(5,484)**	**5,484**	(5,513)	5,513
Transport	**(569)**	**569**	(782)	782
Energy - Marine	**(259)**	**259**	(405)	405
Energy - Non marine	**(62)**	**62**	(99)	99
Fire and other damage to property	**(929)**	**929**	(1,394)	1,394
Third party liability	**(5,387)**	**5,387**	(4,361)	4,361
Other	**(841)**	**841**	(1,225)	1,225
	(13,531)	**13,531**	(13,779)	13,779
Reinsurance	**(1,101)**	**1,101**	(1,188)	1,188
Total	**(14,632)**	**14,632**	(14,967)	14,967

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.

Notes to the Financial Statements at 31 December 2018 (continued)

3. Risk management (continued)

b) Financial risk (continued)

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.

2018	AAA	AA	A	BBB	BB or less	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
Financial Investments							
Debt securities and other fixed income	60,498	102,153	157,215	49,979	—	4,738	374,583
Deposits with credit institutions	—	—	—	—	—	176	176
	60,498	102,153	157,215	49,979	—	4,914	374,759
Reinsurers' share of the outstanding claims including IBNR	—	1,824	171,657	—	1,185	3,523	178,189
Reinsurance debtors	—	506	40,479	—	506	9,107	50,598
Deposits with ceding undertakings	—	—	—	—	—	320	320
Overseas deposits	17,734	4,040	2,584	2,258	—	10,345	36,961
Cash at bank and in hand	—	15,627	31,032	—	—	—	46,659
Total credit risk exposure	78,232	124,150	402,967	52,237	1,691	28,209	687,486

Notes to the Financial Statements at 31 December 2018 (continued)

3. Risk management (continued)

c) Credit risk (continued)

2017	AAA	AA	A	BBB	BB or less	Not rated	Total
	£000	£000	£000	£000	£000	£000	£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
	61,165	94,221	146,206	45,505	3,859	496	351,452
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
Total credit risk exposure	69,288	134,615	358,830	46,847	8,609	16,981	635,170

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

	Financial assets that are past due but not impaired					
2018	**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	**76,783**	**15,280**	**5,302**	**—**	**—**	**97,365**
Other debtors	**92,296**	**—**	**—**	**—**	**—**	**92,296**
Total	**169,079**	**15,280**	**5,302**	**—**	**0**	**189,661**

Notes to the Financial Statements at 31 December 2018 (continued)

3. Risk management (continued)

c) Credit risk (continued)

2017	Neither past due nor impaired £000	Financial assets that are past due but not impaired: 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
Total	171,006	26,536	8,384	—	2	205,928

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.

2018	**Up to 1 Year £000**	**1-3 Years £000**	**3-5 Years £000**	**Over 5 years £000**	**Total £000**
Financial investments	**374,759**	**—**	**—**	**—**	**374,759**
Insurance and reinsurance receivables	**147,836**	**125**	**—**	**—**	**147,961**
Cash at bank and in hand	**46,659**	**—**	**—**	**—**	**46,659**
Net insurance claims outstanding	**(16,840)**	**(180,251)**	**(80,555)**	**(60,245)**	**(337,892)**
Creditors	**(129,071)**	**(108)**	**—**	**—**	**(129,179)**
Accruals and deferred income	**(11,918)**	**—**	**—**	**—**	**(11,918)**
Total	**411,424**	**(180,234)**	**(80,555)**	**(60,245)**	**90,390**

2017	Up to 1 Year £000	1-3 Years £000	3-5 Years £000	Over 5 years £000	Total £000
Financial investments	351,452	—	—	—	351,452
Insurance and reinsurance receivables	161,599	2,637	—	—	164,236
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)
Total	379,851	(161,765)	(65,580)	(52,956)	99,550

Notes to the Financial Statements at 31 December 2018 (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:

	2018		2017	
	Year-end rate	**Average rate**	Year-end rate	Average rate
Euro	**1.114**	**1.130**	1.140	1.144
US dollar	**1.266**	**1.345**	1.343	1.284
Canadian dollar	**1.690**	**1.736**	1.719	1.673

The table below details the Syndicate's assets and liabilities, in converted Sterling by currency at 31 December 2018:

2018	**GBP £000**	**USD £000**	**CAD £000**	**EUR £000**	**AUD £000**	**JPY £000**	**OTH £000**	**Total £000**
Financial investments	**13**	**316,286**	**58,460**	**—**	**—**	**—**	**—**	**374,759**
Overseas deposits	**—**	**2,579**	**10,717**	**—**	**13,846**	**—**	**9,819**	**36,961**
Reinsurers' share of technical provisions	**58,663**	**156,833**	**7,929**	**—**	**—**	**—**	**—**	**223,425**
Insurance and reinsurance receivables	**64,454**	**77,749**	**5,263**	**—**	**66**	**—**	**430**	**147,962**
Cash and cash equivalents	**5,120**	**35,459**	**5,100**	**980**	**—**	**—**	**—**	**46,659**
Other assets	**39,500**	**77,792**	**3,015**	**15,247**	**(4)**	**(1)**	**—**	**135,549**
Total assets	**167,750**	**666,698**	**90,484**	**16,227**	**13,908**	**(1)**	**10,249**	**965,315**
Technical provisions	**236,380**	**335,528**	**30,032**	**91,691**	**—**	**—**	**—**	**693,631**
Insurance and reinsurance payables	**7,084**	**34,997**	**1,812**	**12,336**	**—**	**—**	**—**	**56,229**
Other liabilities	**16,979**	**59,634**	**1,952**	**2,803**	**32**	**—**	**3,467**	**84,867**
Total liabilities	**260,443**	**430,159**	**33,796**	**106,830**	**32**	**—**	**3,467**	**834,727**
Net assets	**(92,693)**	**236,539**	**56,688**	**(90,603)**	**13,876**	**(1)**	**6,782**	**130,588**

Notes to the Financial Statements at 31 December 2018 (continued)

3. Risk management (continued)

e) Market risk (continued)

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
Total assets	182,869	642,235	93,301	7,434	1,005	(1)	7,480	934,323
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
Total liabilities	223,153	473,535	34,442	75,359	32	—	2,216	808,737
Net assets	(40,284)	168,700	58,859	(67,925)	973	(1)	5,264	125,586

Sensitivity analysis to market risks for financial instruments

An analysis of the Syndicate's sensitivity to interest rate, currency and other price risk is shown 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.

	2018 Profit or loss for the year £000	2017 Profit or loss for the year £000
Interest rate risk		
+ 50 basis points shift in yield curves	**(4,200)**	(4,397)
-50 basis points shift in yield curves	**4,236**	4,432
Currency risk		
10 percent increase in GBP/Euro exchange rate	**(9,060)**	(6,792)
10 percent decrease in GBP/Euro exchange rate	**9,060**	6,792
10 percent increase in GBP/US Dollar exchange rate	**23,654**	16,870
10 percent decrease in GBP/US Dollar exchange rate	**(23,654)**	(16,870)
10 percent increase in GBP/Canadian Dollar exchange rate	**5,669**	5,886
10 percent decrease in GBP/Canadian Dollar exchange rate	**(5,669)**	(5,886)

Notes to the Financial Statements at 31 December 2018 (continued)

3. Risk management (continued)

f) Fair value estimate

Financial instruments that are held at fair value through profit or 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.

2018

	Level 1	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Debt securities and other fixed income securities	**4,829**	**369,754**	**—**	**374,583**
Loans and deposits with credit institutions	**—**	**176**	**—**	**176**
Total Financial Assets at Fair Value	**4,829**	**369,930**	**—**	**374,759**

2017

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
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	4,593	346,859	—	351,452

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 as a regulated entity complies with Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's sets capital at a syndicate level, the requirement to meet Solvency II and Lloyd's capital requirements only apply at an overall and individual member level and not at the syndicate level. Accordingly, the capital requirement in respect of Syndicate 1221 is not disclosed in these financial statements.

Notes to the Financial Statements at 31 December 2018 (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 for the syndicates on which it participates, 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 is 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 2018 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 member’s balance reported on the balance sheet on page 18, represent resources available to meet the member’s and Lloyd’s capital requirements.

Notes to the Financial Statements at 31 December 2018 (continued)

4. Analysis of underwriting results

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

2018	**Gross premiums written £000**	**Gross premiums earned £000**	**Gross claims incurred £000**	**Net operating expenses £000**	**Reinsurance balance £000**	**Total £000**
Direct insurance:						
Marine	**26,439**	**32,234**	**(41,431)**	**(10,132)**	**6,669**	**(12,660)**
Transport	**38,834**	**44,874**	**(37,951)**	**(19,556)**	**(611)**	**(13,244)**
Energy - marine	**36,245**	**35,431**	**(10,625)**	**(10,274)**	**(9,246)**	**5,286**
Energy - non marine	**17,547**	**17,303**	**(14,902)**	**(2,554)**	**(1,236)**	**(1,389)**
Fire and other damage to property	**50,182**	**55,504**	**(24,846)**	**(12,251)**	**(10,953)**	**7,454**
Third party liability	**122,942**	**114,897**	**(88,884)**	**(33,712)**	**(1,433)**	**(9,132)**
Other	**16,204**	**10,832**	**(1,503)**	**(4,160)**	**(2,269)**	**2,900**
	308,393	**311,075**	**(220,142)**	**(92,639)**	**(19,079)**	**(20,785)**
Reinsurance	**23,989**	**25,214**	**(7,588)**	**(4,747)**	**(3,549)**	**9,330**
Total	**332,382**	**336,289**	**(227,730)**	**(97,386)**	**(22,628)**	**(11,455)**

2017	Gross premiums written £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	366,766	366,493	(273,393)	(94,097)	(13,984)	(14,981)

All premiums were concluded in the UK.

Notes to the Financial Statements at 31 December 2018 (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.

	2018	2017
	£000	£000
Marine, aviation and transport	**(16,939)**	7,012
Energy	**2,716**	(1,159)
Fire and other damage to property	**1,868**	(9,063)
Third party liability	**(11,272)**	(2,565)
Pecuniary Loss	**1,105**	1,268
Total direct	**(22,522)**	(4,507)
Reinsurance acceptance	**348**	4,736
	(22,174)	229

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 both gross and net of reinsurance ceded, on a pure underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2018 in all cases.

Pure Underwriting Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate gross claims	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
at end of underwriting year	79,312	74,983	84,877	80,060	106,160	129,084	94,290	
one year later	150,987	138,767	151,144	181,050	224,348	235,222		
two years later	144,725	134,275	162,069	172,667	222,348			
three years later	139,941	118,661	163,353	188,339				
four years later	137,313	120,653	172,631					
five years later	133,083	121,051						
six years later	144,926							
Less gross Claims paid	(122,134)	(104,220)	(149,182)	(119,211)	(131,125)	(71,948)	(4,937)	
Gross ultimate claims reserve	22,792	16,831	23,449	69,128	91,223	163,274	89,353	476,050
Gross ultimate claims reserve for 2011 & prior years								40,030
Gross claims reserves								**516,080**

Notes to the Financial Statements at 31 December 2018 (continued)

5. Claims outstanding (continued)

Pure Underwriting Year	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate net claims	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
at end of underwriting year	48,671	46,685	52,332	55,414	75,296	83,315	66,839	
one year later	94,116	87,803	97,149	124,338	149,339	160,991		
two years later	90,483	84,908	106,477	122,464	150,345			
three years later	88,683	76,722	106,241	131,405				
four years later	90,731	75,978	111,325					
five years later	86,525	75,284						
six years later	94,637							
Less net Claims paid	(76,069)	(65,810)	(97,907)	(88,987)	(89,894)	(53,145)	(4,170)	
Net ultimate claims reserve	18,568	9,474	13,418	42,418	60,451	107,846	62,669	314,844
Net ultimate claims reserve for 2011 & prior years								23,048
Net claims reserves								**337,892**

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.

	2018			2017		
	Gross Provisions £000	**Reinsurance Assets £000**	**Net £000**	Gross Provisions £000	Reinsurance Assets £000	Net £000
Incurred claims outstanding						
Claims notified	**279,002**	**(94,413)**	**184,589**	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 1st January	**476,825**	**(177,491)**	**299,334**	431,675	(148,070)	283,605
Change in prior year provisions	**138,376**	**(40,370)**	**98,006**	155,084	(58,685)	96,399
Expected cost of current year claims	**89,353**	**(26,484)**	**62,869**	118,309	(44,527)	73,782
Claims paid during the year	**(205,350)**	**72,685**	**(132,665)**	(201,663)	62,906	(138,757)
Effects of movements in exchange rates	**16,876**	**(6,528)**	**10,348**	(26,580)	10,885	(15,695)
Balance as at 31st December	**516,080**	**(178,188)**	**337,892**	476,825	(177,491)	299,334
Claims notified	**306,480**	**(105,025)**	**201,455**	279,002	(94,413)	184,589
Claims incurred but not reported	**209,600**	**(73,163)**	**136,437**	197,823	(83,078)	114,745
Balance at 31st December	**516,080**	**(178,188)**	**337,892**	476,825	(177,491)	299,334
Unearned Premiums						
Balance at 1st January	**176,433**	**(50,257)**	**126,176**	185,441	(52,757)	132,684
Premiums Written during the year	**332,382**	**(83,099)**	**249,283**	366,766	(117,747)	249,019
Premiums earned during the year	**(336,289)**	**89,482**	**(246,807)**	(366,493)	117,196	(249,297)
Effects of exchange rates	**5,024**	**(1,363)**	**3,661**	(9,281)	3,051	(6,230)
	177,550	**(45,237)**	**132,313**	176,433	(50,257)	126,176

Notes to the Financial Statements at 31 December 2018 (continued)

7. Net operating expenses

Administrative expenses include:

	2018	2017
	£000	£000
Acquisition costs	**81,763**	99,258
Change in deferred acquisition costs	**(550)**	(213)
Administrative expenses	**28,513**	13,287
Personal Expenses	**8,355**	7,971
Reinsurance commissions and profit participations	**(20,658)**	(26,206)
	97,423	94,097

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

	2018	**2017**
	£000	**£000**
Balance at 1 January	**40,226**	40,226
Incurred costs deferred	**92,148**	112,213
Amortisation	**(93,850)**	(112,213)
Balance at 31 December	**38,524**	40,226

Administrative expenses include:

	2018	2017
	£000	£000
Auditor's remuneration		
Fees payable to the Syndicate's auditor for the audit of these financial statements	**122**	122
Fees payable to the Syndicate's auditor and its associates in respect of: other services pursuant to legislation	**99**	99
	221	221

Notes to the Financial Statements at 31 December 2018 (continued)

8. Staff numbers and costs

The Syndicate does not directly employ any staff. All employees engaged on Syndicate business are employed by Navigators Management (UK) Ltd ("NMUK") rather than the managing agent, which charges Navigators group companies and the Syndicate with a single management fee for their respective share of group expenses. This fee is included within net operating expenses. The charge from NMUK to the Syndicate does not specifically identify the cost of employees or directors. Details of staff costs and numbers of the Syndicate are included within the financial statements of NMUK.

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:

	2018	2017
	£000	£000
Emoluments	**1,059**	1,099
Pension costs	**83**	103
	1,142	1,202

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

	2018	2017
	£000	£000
Emoluments	**196**	216
Pension costs	**6**	28
	202	244

Notes to the Financial Statements at 31 December 2018 (continued)

10. Investment income

	2018	2017
	£000	£000
Investment income		
Income from investments at fair value through profit or loss	**5,326**	5,312
Gains on the realisation of investments designated on initial recognition at fair value through profit or loss	**135**	149
Losses on the realisation of investments designated on initial recognition at fair value through profit or loss	**(322)**	(633)
	5,139	4,828

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.

	2018	2017
	£000	£000
Average amount of Syndicate funds available for investment during the year		
Canadian	**58,251**	60,795
US dollar	**290,786**	295,658
Total funds available for investment, in sterling	**349,037**	356,453
Total investment return	**3,049**	3,294
Annual investment yield		
Canadian	**2.48%**	0.40%
US dollar	**0.55%**	1.03%
Total annual investment yield, in sterling	**0.87%**	0.92%

11. Financial investments

	Market value		**Cost**	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Debt securities and other fixed income securities	**374,583**	351,285	**381,537**	359,340
Deposits with credit institutions	**176**	167	**176**	167
	374,759	351,452	**381,713**	359,507

Notes to the Financial Statements at 31 December 2018 (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

	2018	2017
	£000	£000
Reinsurance profit commissions	**-**	2,324
US Federal income tax	**1,043**	1,265
Inter-company balances	**90,587**	81,117
Over-rider commission	**-**	85
VAT recoverable	**33**	558
Sundry Debtors	**633**	837
	92,296	86,186

14. Other Creditors

	2018	2017
	£000	£000
Balances due to Managing Agent and US Parent	**24,246**	17,317
Investment purchases	**23**	5
Distribution creditor	**48,198**	45,325
Profit commission payable	**194**	5,380
Sundry creditors	**289**	4,585
	72,950	72,612

15. Cash and cash equivalents

	2018	2017
	£000	£000
Cash at bank and in hand	**46,659**	38,675
Total cash and cash equivalents	**46,659**	38,675

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.

Notes to the Financial Statements at 31 December 2018 (continued)

16. Related parties (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 £5.1m (2017: £5.2m).

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 member's FAL to meet liquidity requirements or to settle losses.