NAVIGATORS

UNDERWRITING AGENCY LIMITED
S Y N D I C A T E 1221
at LLOYD's

Syndicate Annual Accounts
31 December 2021

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UNDERWRITING AGENCY LIMITED
S Y N D I C A T E 1221
at LLOYD's

Directors and Administration

Managing Agent
Navigators Underwriting Agency Limited

Directors

C L Bach III
A A Darfoor*
N J Farrer
M R Fisher*
D Garland*
G E Johnson*
D C Robinson*
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.
Royal Bank of Canada
Societe Generale S A

Investment Managers
New England Asset Management Limited

Statutory Auditor
Deloitte LLP, London

Directors' Interests
None of the Directors of the Managing Agent have any participation in the Syndicate's premium income capacity.

Solicitors
Norton Rose Fulbright LLP, London

Strategic Report of the Directors of the Managing Agent

The Directors of the Managing Agent ("the Directors" or "the Board") present their report for Syndicate 1221 ("Syndicate") for the year ended 31 December 2021. The Syndicate's Managing Agent is a company registered in England and Wales.

This Strategic Report provides an overview of the Syndicate's strategic management, business environment, performance and financial position and the s.172 statement that sets out the Managing Agent's management of specific matters as required under that section. In addition, whilst there is no specific requirement to report on the actions taken to respond to climate change, the Syndicate's actions are set out within the paragraphs that follow.

Strategic management

In 2021, the Syndicate reported an overall profit and an underwriting combined ratio of 95.5%, due largely to favourable loss experience and consequent reserve releases from prior accident years, with underwriting profits recorded in our Marine & Energy, Financial Lines and Political Risks divisions. A more detailed review by division is provided in the Market Review paragraphs. Market conditions continue to be favourable across all lines of business, the Syndicate recorded significant rate rises across most classes of business with an overall rate rise of 16%, compounding the impact of the significant rate rises seen in 2020.

In 2021, the Syndicate saw the beginning of the benefits of its remediation work, completed during 2020, with favourable loss activity and decreases in the overall expense ratio noted during the year. We continued to take advantage of the favourable underwriting environment, reflected in a 6.1% increase in gross written premium in 2021. For 2022, we expect to see a tapering of premium rate increases, but expect the strong underwriting environment to persist. The 2022 Syndicate Business Forecast recorded a £10m increase in Syndicate capacity from £275m to £285m.

The Hartford Financial Services Group, Inc., known as "The Hartford", a United States based company in Connecticut, continues to work on integrating the Syndicate and other Navigators Group, Inc. companies. This enables the Syndicate to leverage the wider Hartford Group resources across a number of functions including Underwriting and Underwriting Operations, Actuarial, Finance, IT and Claims. As the Syndicate is The Hartford's main underwriting platform for international operations outside of the USA, the Syndicate is expected to be an instrumental vehicle for The Hartford's future international growth.

The Board is conscious that climate change is likely to significantly impact the global insurance and reinsurance market, risk assessment, selection and pricing in the future. The potential risk, frequency and severity of loss to insured parties is likely to increase. For an insurer, climate change presents a mix of opportunities and threats. As a result, the type and level of cover offered by the Syndicate in the future may vary to that offered at present. By its very nature, increasing global temperatures leading to rising sea levels from melting glaciers in the Antarctic and Greenland will result in an increase in variable and extreme wind related weather events, as well as flooding, drought, widespread fire damage and even pestilence and disease. The Board is aware that the consequential increase in loss of life, property, business interruption, increased political violence and litigation is likely to mean that pricing models will need to be adapted to take account of the resulting change in the natural as well as insurance and reinsurance environments. In future years this will be carefully considered within the Syndicate Business Forecast setting process.

In addition, investment losses have the potential to arise from exposure to industries perceived to be contributing to climate change. The Syndicate has a diversified investment portfolio, with limits on exposure to individual issuers. During 2021, the Board approved an updated Investment Policy to require the Syndicate's investment managers to actively consider Environmental, Social and Governance issues ("ESG") as part of the ongoing assessment of the portfolio performance and risk. Additionally strict limits have been put in place relating to investments in those companies which generate revenues from coal and oil extracted from tar sands.

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

Business performance measures

The Syndicate recorded a net profit for the year of £8.5m compared to a loss of £35.9m for the prior year. This profit comprised an underwriting profit of £11.5m (2020: underwriting loss of £54.9m), an overall investment loss of £(2.5)m (2020 gain: £20.9m) and foreign exchange loss of £0.5m (2020 loss: £1.9m). The Syndicate's combined ratio for 2021 was 95.5% (2020: 121.4%).

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

	2021	2020	% Growth
	£000	£000	
Gross premiums written	**320,921**	302,452	6.1%
Net premiums written	**278,571**	247,700	12.5%
Net earned premiums	**255,239**	256,608	(0.5)%
Net operating expenses	**83,138**	99,923	(16.8)%
Investment income	**9,352**	7,567	23.6%
Combined Ratio	**95.5%**	121.4%	

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 premiums for 2021 were £320.9m, representing an increase of 6.1% compared to 2020. This increase was primarily driven by favourable rates and growth in our core lines of business through 2021, offset by a reduction in income from classes exited during 2020.

Net written premium increased by 12.5% and net earned premium decreased by (0.5)%. The increase in net written premiums is driven by the increase in gross written premium as above, and reductions in ceded reinsurance expenditure in Financial Lines, Political Risks and Marine & Energy. The reduction in net earned premiums is due to the lag in premium earnings compared to written recognition, as well as the impact of the changing USD to GBP FX rate.

Net operating expenses are (16.8)% lower than in 2020. This is mainly due to reductions in commission rates and a decrease in administration expenses relating to ongoing expense rationalisation activities.

Investment income, which excludes unrealised gains and losses, increased by 23.6% from the prior year due to more funds under investment and a slight increase in yields. The overall investment result, which is net of investment expenses, was a loss of £(2.5)m compared to a gain of £20.9m in the prior year, driven by mark to market losses recognised during 2021.

The Syndicate's combined ratio has decreased from 121.4% in 2020 to 95.5% in 2021. The decrease is driven by:

- Favourable loss experience resulting in prior year reserve releases during 2021.
- Reduced commissions on open market business coupled with a reduction in higher commission delegated authority business.
- Reduced management expenses.

Member's Funds

The Member's Funds stood at £93.8m (2020: £110.9m) at year end, with the decrease due to capital reimbursement to The Hartford. During 2022, Syndicate 1221 will close the 2019 underwriting year with a loss of £(2.3)m, compared to a loss of £(76.8)m on the 2018 year of account, closed during 2021.

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

Covid-19

The Syndicate has reported ultimate claims incurred of £18.2m gross and £16.3m net to Covid-19, with these estimates remaining materially unchanged through 2021. £8.7m of the net loss is attributable to direct impacts in our Global Re and Marine divisions, our remaining exposure is due to the potential secondary economic impact created by government action and lockdown restrictions affecting business written in our Financial Lines division. If restrictions were to continue during 2022 we do not currently believe our booked reserves would materially increase.

The Syndicate's operations were not materially impacted by Covid-19 or the associated "lock downs" during 2021. The technology, operational infrastructure and detailed planning enabled the business to continue in a work from home environment.

Market Review

A review of our five divisions is provided below:

Marine & Energy

During 2021, the Marine portfolio continues to write a broad section of the Marine market, concentrating on Cargo, Ports & Terminals, Marine & Energy Liability, Specie and Upstream Energy.

Market conditions within the chosen classes were favourable through 2021, with double digit rate rises recorded across the division as a whole.

Financial Lines

Financial Lines covers the Professional class of business, incorporating Errors and Omissions ("E&O"), Directors and Officers ("D&O") and Financial Institutions ("FI"). During 2021 we discontinued our Transactional Liability class of business.

D&O saw positive rate increases of 24.8% and reserve releases on prior years, which led to an overall profit in this class.

E&O had reserve strengthening on prior years, leading to an overall loss in this class. The book saw positive rate change of 21.7% during 2021.

FI saw positive rate rise of 24.5% and significant growth in new business making an underwriting profit during 2021.

Casualty

Casualty comprises General Liability, Life Sciences and Environmental books of business. During 2021 all products experienced favourable rate change and significant growth over prior year. The Casualty division made an underwriting loss in 2021 due to a small amount of prior year reserve development on General Liability and a relatively high expense ratio on a growing book of business.

Political Risk

Political Risk covers Political Violence and Terrorism ("PV&T") and Credit and Political Risk ("CPRI").

CPRI, a new class of business in 2020, doubled its gross written premium during 2021. This class of business is protected by a 60% proportional treaty reinsurance cover in this early stage of development.

In 2021, management decided to start writing Aviation War as part of the PV&T class and expect continued growth in 2022.

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

Market Review (continued)

Global Re

Our Global Re division forms part of the wider assumed reinsurance offering of The Hartford, with the Syndicate providing access to London Market business. The division writes a stable portfolio of business, concentrated on International Property Treaty. During 2021, the division recorded an underwriting loss, primarily due to CAT losses arising from the European storms in the summer of 2021.

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 appetites 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 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, developing and managing the 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 new and existing risks 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 policy that covers the key categories if risk including the associated risk appetite, key controls and risk governance.

The principal risks and uncertainties faced by the Syndicate are detailed below. In recent years, Brexit has been highlighted as a key risk and required management focus. Whilst remaining a key risk, the establishment of Lloyd's Brussels has diminished this risk as the new way of conducting business with EU countries is becoming normalised. Additionally, the Syndicate completed its Part VII transfer of European business relating to 2018 and prior on 30 December 2020 to Lloyd's Brussels. Integration and process re-alignment with The Hartford commenced in May 2019 and continued to be an area of focus during 2021.

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.

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 Reserve Committee.

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

Principal risks and uncertainties (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.

- There is a framework in place to assess and approve all reinsurers and reinsurance purchases, including the detailed criteria for consideration. This 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. Credit control procedures are in place for all counterparties, with broker credit risk reported through to the Underwriting & Claims Committee. Provisions are made for any amounts considered uncollectible.

- Investment credit risk is managed conservatively by defining portfolio limits for each investment grade rating band within the investment guidelines.

Liquidity Risk

- The risk or inability to realise investments and other assets in order to settle its financial obligations when they fall due.
- In order to manage this risk, the Board has put in place detailed investment guidelines. The guidelines are used by the investment managers and oversight is maintained by the Board's Investment Committee.
- On a quarterly basis a range of macro level liquidity ratios are calculated and reviewed.

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 and Compliance and Audit Committees.

- The integration with The Hartford is subject to careful project planning and continuing reporting to and monitoring by the Board.

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 manager's investment strategies. Strict limits, by trust fund, are set for types of assets held, concentration limits and average investment grade ratings. Investments are typically investment grade bonds and investment grade asset backed securities. Guidelines and benchmarks are set annually and approved by the Board. Regular reporting is reviewed and monitoring undertaken by the Investment Committee.

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

Principal risks and uncertainties (continued)

Concentration Risk

- The risk of losses arising from the correlation and concentration of business written within geographical area, of a policy type or of underlying risks covered, or that may arise with respect to investments in a geographical area, economic sector or individual investments. Concentration risk 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 Hartford's Code of Ethics is reviewed and acknowledged annually by all employees and training is also mandated periodically on material laws and policies related to ethical behaviour. Regular dialogue is maintained with regulatory bodies such as Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority.

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

- The Managing Agent is required to comply with the requirements of the Prudential Regulation Authority, Financial Conduct Authority, Lloyd's and those imposed upon the Lloyd's market by overseas regulators where the Syndicate conducts business. Regulatory risk is the risk of loss owing to changes in current regulatory requirements or the imposition of new requirements. Such changes could increase capital requirements, increase operational costs, reduce the profitability of business or change the competitive landscape.

- The Managing Agent employs a Compliance Officer, who monitors regulatory developments and assesses the impact on the Managing Agent and Syndicate. These activities form part of an annual plan which includes compliance reviews against established policies, processes and procedures.

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

Principal risks and uncertainties (continued)

Covid-19

- During 2021, the Risk Management Framework focused on the assessment and management of risks related to the global pandemic. Risks were assessed across all of the categories detailed above, such as market, operational and underwriting, including all underwriting divisions.
- A number of risk management techniques were utilised to help understand and manage the risk, from standard risk assessments to detailed business continuity planning and stress and scenario testing. Regular updates of the key risks were reported to and overseen by the Risk & Compliance Committee.

Climate Change

- The risk that significant changes in the climate have an adverse impact on the Syndicate and Company's results and ability to carry on their business activity.
- This risk is mitigated by a combination of responses, including strategies that are aimed at reducing the use of certain fossil fuels and carbon emissions, and environmentally friendly initiatives within our offices. Work continues in this space to assess and mitigate climate change, as we recognise the global impact of this issue.
- The Board is committed to managing and reducing the environmental impact of the Company and Syndicate in a cost effective and responsible way.
- Lloyd's issued an updated ESG report in 2020. As part of this guidance they committed the market to reduce and ultimately eliminate investments in industries and/or companies which contribute significantly to climate change.
- During 2021, the Board has approved updated investment guidelines with the following criteria relevant to climate change and the Lloyd's ESG report:
  - No new investments in the construction and operation of new coal-fired plants,
  - No new investments in companies that generate more than 25 percent of their revenues from thermal coal mining or more than 25 percent of their energy production from coal,
  - No new investments in companies that generate more than 25 percent of their revenues directly from the extraction of oil from tar sands,
  - Divest publicly traded investments which exceed the thresholds by 2023.

Ukraine

- The Board continues to pay close attention to the tragic events unfolding currently in Ukraine. A detailed review of existing and potential exposures to these events has been undertaken by management and a summary shared with the Board. Whilst we do not believe we have material liability or investment exposures at this stage, we continue to oversee management's careful attention to developments from both a loss activity and economic sanctions perspective.

  Management is also closely monitoring the risk of cyber-attack and has appropriately increased its level of preparedness in concert with The Hartford Group. To date, we have not seen any increased threat activity directed at the Company.

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

s.172 Statement by the Directors in performance of their statutory duties

The Managing Agent's Board of Directors is conscious that in order to fulfil their ongoing responsibilities, due attention must be given to a wide range of key stakeholders, including The Hartford as ultimate parent, staff employed by the group, regulators, clients, third party suppliers, local communities and the environment. The Board is intuitively and continuously aware that virtually every decision made by them will impact one or more of these key stakeholders in varying degrees. In arriving at a decision, the potential impact of the most affected stakeholders is considered either in the submitted paper for discussion and approval, or as part of the general discussion leading to the approval.

The Board, both corporately and individually, consider that they have acted in good faith to promote the success of the Company for the benefit of the members as a whole. The Board is kept abreast of feedback from the various stakeholders via management and use this feedback to ensure that decision making is made in an informed manner, having regard to the impact on stakeholders and matters set out in s.172(1)(a-f) of the CA 2006. In particular:

(a) The Directors, in making decisions have considered the long-term prospects of the Company and the Syndicate, which it manages. The 2022 plan for the Syndicate has been agreed with Lloyd's and work is taking place on an on-going basis to increase the quality of the business being underwritten. This includes the withdrawal from loss making classes of business and focus on the areas where the Syndicate has strength and expertise.

(b) Employees are fundamental to the success of the plan. Whilst the Company does not directly employ any staff, it manages group staff who work on Syndicate and Company business. Group wide and local "town hall" meetings are held on a regular basis where business updates are provided to staff and questions invited in an informal setting.

    In addition, all staff have access to the senior management of the Company, who pride themselves on their collaborative, open-door approachable style. The Directors regard this style as one of their core strengths and assists in staff retention.

    Staff development is encouraged by the provision of leadership programmes; annual objective setting that includes a review of training and development, and regular reviews between teams and line managers. The Company also regularly reviews salaries and benefits to ensure they are not out of alignment with the market.

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

s.172 Statement by the Directors in performance of their statutory duties (continued)

Diversity and Inclusion ("D&I") is an area of increasing focus both within the broader Hartford organisation and for the Board. A D&I Council has been in position for UK staff through 2021, focusing on supporting our staff locally whilst also communicating the ongoing work in this area at The Hartford Group level.

(c) In order for the Company as Managing Agent, and Syndicate as underwriter, to be successful in the Lloyd's market, the maintaining of business and customer relationships is vital. Senior management and all levels of staff interact on a daily basis in a professional manner with Lloyd's, brokers, other insurers and reinsurers, service providers (such as data processing, claims management, IT infrastructure management) and insured parties. Interaction occurs as part of our day to day business, through face to face meetings, presentations, or other communications. We also listen to our clients and try to assess their requirements to create innovative products to meet their ever-changing needs.

The Board pays due regard to the ever-changing technology environment. The Company is actively engaged in the various Future At Lloyd's work streams and is seeking to apply these to its own business model as relevant.

(d) The Directors consider that the Syndicate has a positive impact on the environment and society at large. The process of underwriting encourages insured parties to consider and take steps to minimise their corporate and personal risks as well as provide financial compensation for catastrophic and other losses. The Directors are conscious that business activity may add to the increase in carbon emissions so staff are encouraged to consider their own footprint. This includes the use of videoconferencing that reduces the need to travel, home working where appropriate, the provision of recycling bins and the switching off of electrical equipment when leaving the office. Staff are also encouraged to take part in charitable activities, with the newly appointed D&I Council actively promoting events throughout the year.

(e) The Board and senior management team lead by example to set the level of professionalism expected from employees. High business standards are promoted by the Compliance department. Staff are regularly required to carry out online training covering topics such as GDPR, conflicts of interest and financial crime to ensure they are up to date with legislation. Many of these business conduct standards are set out in the Lloyd's Minimum Standards.

(f) Having regard to all the above, the Directors are also aware that all members of the Company and Syndicate, whether group employees engaged on Syndicate business or participating member, need to be treated fairly in order to best facilitate the desired outcome of the chosen strategy. The open style of management adopted by the Directors facilitates employees to raise issues with managers so that appropriate steps can be taken to resolve issues as they rise.

Approved and authorised for issue by the Board of Directors

N J Farrer
Director
2 March 2022

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report for the year ended 31 December 2021.

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).

Directors

The Directors of the Managing Agent who served during the year ended 31 December 2021 and up to the date of this report are as follows:

C L Bach III	
A A Darfoor*	(appointed 1 July 2021)
N J Farrer	
M R Fisher*	
D Garland*	(appointed 1 July 2021)
G E Johnson*	
D C Robinson*	(appointed 14 September 2021)
C D Short	(resigned 30 June 2021)
C D Sprott	
M J Sullivan*	
V C Tizzio*	(resigned 30 July 2021)

* Non-executive

Going Concern

As explained in the Strategic Report, The Syndicate is The Hartford's main underwriting platform for international operations outside of the USA and is expected to be an instrumental vehicle for The Hartford's future international growth. The Company has spent the last few years redeveloping and consolidating its book, and the Board are starting to see the Syndicate moving back into profitability. In addition, and in light of focus on overall expense ratio, the Syndicate has been tasked with reducing costs in 2021 and beyond. The Syndicate's service company, Navigators Management (UK) Limited ("NMUK") has therefore carried out a review of external business relationships as well as examining internal processes in order to drive costs down and improve efficiencies. This will be partly achieved by leveraging The Hartford's existing processes and relationships, with the expectation of a reduction in the expense ratio in the longer term.

During the year, the Board worked with senior management of The Hartford and Lloyd's to agree the 2022 Syndicate Business Forecast and The Hartford continues to provide capital to support the business plan. The 2022 Syndicate Business Forecast also indicates an expansion of underwriting activities as the Syndicate underwriting capacity has been increased by £10m to £285m from £275m in 2021.

The Board has considered the COVID-19 pandemic that is currently having a global impact. The Company has adequate financial resources and a robust business continuity plan in place that is functioning well. To date the crisis has had a limited financial impact on the Company and Syndicate. The Board will continue to monitor the development of the crisis from a social, political and economic standpoint and look to adapt its strategy, where necessary, as the long-term impacts become clearer.

Report of the Directors of the Managing Agent (continued)

Going Concern (continued)

Having considered the above, the principal risks set out in the Strategic Report and having made other enquiries as necessary, the Directors have a sound expectation that the Syndicate has adequate resources and support of it's member to continue in operational existence for the foreseeable future. For these reasons, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Post Balance Sheet events

There are no subsequent events to note at the date of the approval of the accounts.

Strategic management

The principal activity is the transaction of general insurance and reinsurance business in the United Kingdom. The capacity for Syndicate 1221 ("the Syndicate") in 2021, 2020, and 2019 was £275m, £265m 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 now manages its business through five divisions comprising Marine & Energy, Casualty, Financial Lines, Political Risks and Global Re.

Disclosure of information to the auditor

So far as each person who is 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 they are obliged to take as a Director in order to make themselves 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 Deloitte LLP will therefore continue in office. The Managing Agent proposes the re-appointment of Deloitte LLP as the Syndicate auditor.

Directors and Officers Protection

The Hartford maintains a group wide Directors and Officers liability insurance policy that indemnifies the Directors of the Company if a claim is made against them in their capacity as a Director of the Company.

Managing Agent's registered office

7-8th Floor, 6 Bevis Marks,
London, EC3A 7BA

Approved and authorised for issue by the Board of Directors

N J Farrer
Director
2 March 2022

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 Company'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 liquidate the Company or to cease operation, 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.

Approved and authorised for issue by the Board of Directors

N J Farrer
Director
2 March 2022

Independent auditor's report to the member of Syndicate 1221

Report on the audit of the syndicate annual financial statements

Opinion

In our opinion the syndicate annual financial statements of Syndicate 1221 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 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.

We have audited the syndicate annual financial statements which comprise:

- the income statement: technical account;
- the income statement: non-technical account;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in members' balances;
- the statement of cash flows; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the syndicate annual financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the managing agent's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue in operations for a period of at least twelve months from when the syndicate financial statements are authorised for issue.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report.

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

Other information

The other information comprises the information included in the annual report, other than the syndicate annual financial statements and our auditor's report thereon. The managing agent is responsible for the other information contained within the annual report. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual financial statements, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing, as applicable, matters related to the syndicate's ability to continue in operation and to use the going concern basis of accounting unless the managing agent intends to cease the syndicate's operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the syndicate annual financial statements

Our objectives are to obtain reasonable assurance about whether the syndicate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual financial statements.

A further description of our responsibilities for the audit of the syndicate annual financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the syndicate and its control environment, and reviewed the syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit about their own identification and assessment of the risks of irregularities.

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

We obtained an understanding of the legal and regulatory frameworks that the syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005); and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team including relevant internal specialists such as actuarial specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Estimation of pipeline premiums requires significant management judgement and therefore there is potential for management bias through manipulation of core assumptions. In response our testing included, on a sample basis, performing retrospective review over the historical accuracy of management's estimates, comparing the percentage of signed premium against the percentage of signed premium for prior year policies at the same stage of development, and comparing the estimate against written bordereaux or declarations.
- Valuation of technical provisions includes assumptions and methodology requiring significant management judgement and involves complex calculations, and therefore there is potential for management bias. In response to these risks we engaged actuarial specialists to develop independent estimates of the highest risk classes and a review of the methodology and assumptions for the rest of the classes of business.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports and reviewing correspondence with Lloyd's and the PRA.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the managing agent's report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the managing agent's report.

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 in respect of the following matters if, in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of 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 syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Colin Rawlings, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
2 March 2022

NAVIGATORS

UNDERWRITING AGENCY LIMITED
S Y N D I C A T E 1221
at LLOYD'S

Income Statement: Technical account – General business
for the year ended 31 December 2021

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Earned premiums, net of reinsurance					
Gross premiums written	4	320,921		302,452	
Outward reinsurance premiums		(42,350)		(54,752)	
Net premiums written			278,571		247,700
Change in the provision for unearned premiums					
Gross amount		(24,594)		18,737	
Reinsurers' share		1,262		(9,829)	
Change in the net provision for unearned premiums			(23,332)		8,908
Earned premiums, net of reinsurance			255,239		256,608
Other technical income, net of reinsurance			16		12
Allocated investment return transferred from the non-technical account			(453)		12,514
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	6	(145,414)		(176,264)	
Reinsurers' share	6	40,320		43,085	
Net claims paid			(105,094)		(133,179)
Change in the provision for claims					
Gross amount		(36,878)		(96,636)	
Reinsurers' share		(18,620)		18,220	
Change in the net provision for claims			(55,498)		(78,416)
Claims incurred, net of reinsurance			(160,592)		(211,595)
Net operating expenses	7		(83,138)		(99,923)
Balance on the technical account for general business			11,072		(42,384)

All operations are continuing.

The accompanying notes form part of these financial statements.

NAVIGATORS

UNDERWRITING AGENCY LIMITED
S Y N D I C A T E 1221
at LLOYD'S

Income Statement: Non-technical account
for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Balance on the technical account for general business		**11,072**	(42,384)
Investment income	10	9,352	7,567
Unrealised (losses)/gains on investments		(9,754)	5,466
Investment expenses and charges		(51)	(519)
Allocated investment return transferred to general business technical account		453	(12,514)
Investment return on capital provided by members		(2,094)	8,431
Loss on foreign exchange		(516)	(1,935)
Profit/(loss) for the financial year		**8,462**	(35,888)

Statement of Other Comprehensive Income
for the year ended 31 December 2021

	2021 £'000	2020 £'000
Profit/(loss) for the financial year	8,462	(35,888)
Foreign exchange on translation	(5,479)	957
Total comprehensive income/(expense) for the year	2,983	(34,931)

The accompanying notes form part of these financial statements.

Statement of Financial Position – Assets
at 31 December 2021

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Investments					
Financial investments	11		**532,084**		511,165
Deposits with ceding undertakings			**2,686**		261
Reinsurers' share of technical provisions					
Provision for unearned premiums	6	**24,736**		23,523	
Claims outstanding	6	**201,101**		220,367	
			225,837		243,890
Debtors:					
Amounts due within one year					
Debtors arising out of direct insurance operations	12	**89,090**		76,904	
Debtors arising out of reinsurance operations	12	**45,507**		34,915	
Other debtors	13	**1,943**		13,048	
			136,540		124,867
Amounts due after one year					
Debtors arising out of reinsurance operations	12	**—**		1	
			—		1
Other assets					
Cash at bank and in hand	15	**71,892**		45,215	
Overseas deposits		**52,618**		40,470	
			124,510		85,685
Prepayments and accrued income					
Accrued interest and rent		**3,459**		3,647	
Deferred acquisition costs	7	**29,797**		28,609	
Other prepayments and accrued income		**1,192**		2,392	
			34,448		34,648
Total assets			**1,056,105**		1,000,517

The accompanying notes form part of these financial statements.

Statement of Financial Position – Liabilities
at 31 December 2021

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Member's balance			**93,765**		110,901
Technical provisions					
Provision for unearned premiums	6	**175,643**		153,336	
Claims outstanding	6	**740,162**		704,764	
			915,805		858,100
Creditors					
Amounts due within one year					
Creditors arising out of direct insurance operations	3d	**8,543**		6,091	
Creditors arising out of reinsurance operations	3d	**24,081**		16,323	
Other creditors	3d,14	**8,953**		4,212	
			41,577		26,626
Amounts due after one year					
Creditors arising out of reinsurance operations	3d		**—**		3
Accruals and deferred income	3d		**4,958**		4,887
Total liabilities			**1,056,105**		1,000,517

The financial statements on pages 20 to 48 were approved by the Board of Navigators Underwriting Agency Limited on 28 February 2022 and were signed on its behalf by

N J Farrer
Director
2 March 2022

The accompanying notes form part of these financial statements.

Statement of Changes in Member's Balances
for the year ended 31 December 2021

	2021	2020
	£'000	£'000
Member's balance brought forward at 1 January	110,901	142,147
Profit/(loss) for the financial year	8,462	(35,888)
Foreign exchange on translation	(5,479)	957
Transfer from Member	76,823	45,116
Releases to funds in syndicate	(96,942)	(41,431)
Member's balance carried forward at 31 December	93,765	110,901

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Cash flows from operating activities			
Operating result		**8,462**	(35,888)
Increase in gross technical provisions		**57,704**	56,202
Decrease/(increase) in reinsurers' share of gross technical provisions		**18,053**	(2,444)
(Increase)/decrease in debtors		**(11,670)**	16,304
Increase/(decrease) in creditors		**14,948**	(7,847)
Movement in other assets/liabilities		**(11,913)**	(3,839)
Investment return		**2,547**	(20,945)
Other		**(5,087)**	32,118
Net cash flows from operating activities		**73,044**	33,661
Cash flows from investing activities			
Purchase of equity and debt instruments		**(170,910)**	(330,366)
Sale of equity and debt instruments		**134,183**	281,059
Investment income received		**12,491**	12,439
Other		**(2,390)**	—
Net cash flows used in investing activities		**(26,626)**	(36,868)
Cash flows used in financing activities			
Transfer from Member		**76,823**	45,116
Releases to funds in syndicate		**(96,942)**	(41,431)
Net cash flows (used in)/from financing activities		**(20,119)**	3,685
Net increase in cash and cash equivalents		**26,299**	478
Cash and cash equivalents at beginning of year		**45,215**	44,412
Foreign exchange on cash and cash equivalents		**378**	325
Cash and cash equivalents at end of year		**71,892**	45,215

There are no restricted funds within cash and cash equivalents.

The accompanying notes form part of these financial statements.

Notes to the Financial Statements at 31 December 2021

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 Floor, 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.

This information is included in the consolidated financial statements of The Hartford Financial Services Group, Inc. as at 31 December 2021, and these financial statements may be obtained from the Syndicate's Managing Agent at the address listed above.

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 in the period in which the revision has occurred. The most critical accounting estimates are as follows:

Claims provisions and related recoveries

The Syndicate's estimates for reported and unreported losses and the resulting provisions and related insurance recoveries are continually monitored and updated based on the latest available information. Adjustments resulting from updated reviews are reflected in the Income Statement. The process relies on the past being a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The estimation of gross outstanding claims 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 settlement of liability remains uncertain.

The most critical gross estimate included within the Statement of Financial Position is the estimate for losses incurred but not yet reported ("IBNR"); both gross and reinsurer's share. This estimate is critical as it outlines the current liability for future expenses in relation to claims incurred and related recoveries.

Notes to the Financial Statements at 31 December 2021 (continued)

2. Accounting policies (continued)

Use of judgements and estimates (continued)

Claims provisions and related recoveries (continued)

The estimate for gross IBNR as at 31 December 2021 is £401.1m (2020: £350.0m) and is included within technical provisions in the balance sheet. The estimate for the reinsurers' share of IBNR is £99.8m (2020: £95.6m).

The estimate for unallocated loss adjusted expenses is based on an actuarial study as at 31 December 2021 and is £11.2m (2020: £6.9m).

Gross written premiums

Gross written premiums are a key estimate for the Syndicate as a proportion of the premium income relates to pipeline premiums, which represents future premium receivable on in force insurance contracts.

Pipeline premium estimates are based on underwriters' views of the expected premiums to be generated under the relevant contracts, taking into account the historical performance and prevailing market conditions. Premium of £76.4m was written on this basis in 2021 (2020: £88.0m).

Premiums written

Gross written premiums 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. Premiums are earned on a straight line basis over the life of the contract with the exception of after the event ("ATE") contracts. ATE contracts are earned in full once the outcome of the event is known.

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 that have been incurred at the reporting date but have not yet been reported ("IBNR") to the Syndicate at the balance sheet date.

Notes to the Financial Statements at 31 December 2021 (continued)

2. Accounting policies (continued)

Claims provisions and related recoveries (continued)

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Managing Agent's in-house actuaries and reviewed by external consulting actuaries. These techniques generally involve standard actuarial methods (paid and incurred, chain ladder, Bornhuetter Ferguson and initial expected loss ratios). These project 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. 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 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.

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.

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.

Notes to the Financial Statements at 31 December 2021 (continued)

2. Accounting policies (continued)

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 represent 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 investments 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 Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits with ceding undertakings

Deposits with ceding undertakings are measured at cost less allowance for impairment.

Notes to the Financial Statements at 31 December 2021 (continued)

2. Accounting policies (continued)

Identification and measurement of impairment of financial assets

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

Notes to the Financial Statements at 31 December 2021 (continued)

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

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

2021

	Gross Written Premium £'000	**Reinsurance Written Premium £'000**	**Net Written Premium £'000**
United Kingdom	74,124	(9,782)	64,342
Other EU Countries	45,755	(6,038)	39,717
USA	61,661	(8,137)	53,524
Other including Worldwide	139,381	(18,393)	120,988
Total	320,921	(42,350)	278,571

2020

	Gross Written Premium £'000	Reinsurance Written Premium £'000	Net Written Premium £'000
United Kingdom	73,007	(13,216)	59,791
Other EU Countries	43,087	(7,800)	35,287
USA	62,533	(11,320)	51,213
Other including Worldwide	123,825	(22,416)	101,409
Total	302,452	(54,752)	247,700

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.

Notes to the Financial Statements at 31 December 2021 (continued)

3. Risk management (continued)

a) Insurance risk (continued)

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

	2021		2020	
	5 percent increase	**5 percent decrease**	5 percent increase	5 percent decrease
Direct insurance:				
Marine	**(3,296)**	**3,296**	(3,022)	3,022
Transport	**(1,265)**	**1,265**	(23)	23
Energy - Marine	**(803)**	**803**	(1,112)	1,112
Energy - Non marine	**(1,068)**	**1,068**	(650)	650
Fire and other damage to property	**(5,085)**	**5,085**	(4,843)	4,843
Third party liability	**(9,925)**	**9,925**	(7,205)	7,205
Other	**—**	**—**	(4,840)	4,840
	(21,442)	**21,442**	(21,695)	21,695
Reinsurance	**(5,511)**	**5,511**	(1,000)	1,000
Total	**(26,953)**	**26,953**	(22,695)	22,695

b) Financial risk

The Company 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 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 Company's investment and reinsurance assets and its insurance liabilities.

Notes to the Financial Statements at 31 December 2021 (continued)

c) Credit risk

Credit risk is managed and monitored by the Company'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.

2021	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	92,506	146,305	220,937	66,954	220	513	527,435
Shares and other variable yield securities and unit trusts	—	—	—	—	—	4,590	4,590
Deposits with credit institutions	—	—	—	—	—	59	59
	92,506	146,305	220,937	66,954	220	5,162	532,084
Reinsurers' share of outstanding claims including IBNR	58,620	—	140,254	—	—	2,227	201,101
Reinsurance debtors	6,450	—	29,662	—	—	720	36,832
Deposits with ceding undertakings	—	—	—	—	—	2,686	2,686
Overseas deposits	10,671	2,742	2,161	1,962	8,260	26,822	52,618
Cash at bank and in hand	—	—	71,892	—	—	—	71,892
Total credit risk exposure	168,247	149,047	464,906	68,916	8,480	37,617	897,213

2020	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	73,381	161,422	225,641	43,947	1,149	976	506,516
Shares and other variable yield securities and unit trusts	—	—	—	—	—	4,590	4,590
Deposits with credit institutions	—	—	—	—	—	59	59
	73,381	161,422	225,641	43,947	1,149	5,625	511,165
Reinsurers' share of outstanding claims including IBNR	58,683	—	156,348	—	—	5,336	220,367
Reinsurance debtors	4,436	—	20,043	—	—	599	25,078
Deposits with ceding undertakings	—	—	—	—	—	261	261
Overseas deposits	9,104	2,687	1,810	1,933	6,770	18,166	40,470
Cash at bank and in hand	—	—	45,215	—	—	—	45,215
Total credit risk exposure	145,604	164,109	449,057	45,880	7,919	29,987	842,556

Notes to the Financial Statements at 31 December 2021 (continued)

3. Risk management (continued)

c) Credit risk (continued)

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

2021	**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	57,594	19,639	5,062	3,038	3,757	89,090
Other debtors	1,943	—	—	—	—	1,943
Total	59,537	19,639	5,062	3,038	3,757	91,033

2020	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	43,528	16,878	4,649	6,132	5,717	76,904
Other debtors	13,048	—	—	—	—	13,048
Total	56,576	16,878	4,649	6,132	5,717	89,952

3. Risk management (continued)

d) Liquidity risk

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

2021	**Up to 1 Year £'000**	**1-3 Years £'000**	**3-5 Years £'000**	**Over 5 years £'000**	**Total £'000**
Financial investments	**532,084**	—	—	—	**532,084**
Insurance and reinsurance receivables	**134,597**	—	—	—	**134,597**
Cash at bank and in hand	**71,892**	—	—	—	**71,892**
Reinsurers' share of insurance claims outstanding	**85,922**	**71,118**	**28,549**	**15,512**	**201,101**
Creditors	**(41,577)**	—	—	—	**(41,577)**
Accruals and deferred income	**(4,958)**	—	—	—	**(4,958)**
Gross insurance claims outstanding	**(277,376)**	**(262,420)**	**(125,500)**	**(74,866)**	**(740,162)**
Total	**500,584**	**(191,302)**	**(96,951)**	**(59,354)**	**152,977**

2020	Up to 1 Year £'000	1-3 Years £'000	3-5 Years £'000	Over 5 years £'000	Total £'000
Financial investments	511,165	—	—	—	511,165
Insurance and reinsurance receivables	111,819	1	—	—	111,820
Cash at bank and In hand	45,215	—	—	—	45,215
Reinsurers' share of insurance claims outstanding	82,863	83,418	34,048	20,038	220,367
Creditors	(26,626)	(3)	—	—	(26,629)
Accruals and deferred income	(4,887)	—	—	—	(4,887)
Gross insurance claims outstanding	(252,156)	(253,868)	(121,942)	(76,798)	(704,764)
Total	467,393	(170,452)	(87,894)	(56,760)	152,287

e) Market risk

Foreign currency market risk

It is the Company's policy to monitor assets and liabilities in the currencies it is exposed to on a monthly basis in order to minimise foreign currency risk. The following currency exchange rates have been used for principal foreign currency transactions:

	2021		2020	
	Year-end rate	**Average rate**	Year-end rate	Average rate
Euro	**1.191**	**1.179**	1.101	1.126
US dollar	**1.349**	**1.353**	1.345	1.284
Canadian dollar	**1.726**	**1.691**	1.728	1.721

Notes to the Financial Statements at 31 December 2021 (continued)

3. Risk management (continued)

e) Market risk (continued)

The table below details the Syndicate's assets and liabilities, translated into Sterling at 31 December 2021:

2021	**GBP £'000**	**USD £'000**	**CAD £'000**	**EUR £'000**	**AUD £'000**	**OTH £'000**	**Total £'000**
Financial investments	185,819	275,057	71,208	—	—	—	532,084
Overseas deposits	—	7,920	11,308	—	6,379	27,011	52,618
Reinsurers' share of technical provisions	60,598	158,090	7,149	—	—	—	225,837
Insurance and reinsurance receivables	58,653	74,925	1,001	—	18	—	134,597
Cash and cash equivalents	10,667	51,063	8,444	1,718	—	—	71,892
Other assets	18,300	23,194	(2,431)	—	—	14	39,077
Total assets	334,037	590,249	96,679	1,718	6,397	27,025	1,056,105
Technical provisions	316,022	554,366	45,417	—	—	—	915,805
Insurance and reinsurance payables	10,107	22,311	206	—	—	—	32,624
Other liabilities	8,609	3,887	63	245	30	1,077	13,911
Total liabilities	334,738	580,564	45,686	245	30	1,077	962,340
Net assets	(701)	9,685	50,993	1,473	6,367	25,948	93,765

2020	GBP £'000	USD £'000	CAD £'000	EUR £'000	AUD £'000	OTH £'000	Total £'000
Financial investments	188,628	253,267	69,270	—	—	—	511,165
Overseas deposits	(238)	3,040	11,484	—	5,709	20,475	40,470
Reinsurers' share of technical provisions	66,215	170,286	7,389	—	—	—	243,890
Insurance and reinsurance receivables	52,595	58,781	426	—	18	—	111,820
Cash and cash equivalents	12,544	24,790	4,409	3,472	—	—	45,215
Other assets	19,960	25,394	2,597	—	—	6	47,957
Total assets	339,704	535,558	95,575	3,472	5,727	20,481	1,000,517
Technical provisions	300,378	522,815	34,907	—	—	—	858,100
Insurance and reinsurance payables	9,456	12,253	710	—	—	(2)	22,417
Other liabilities	3,863	4,419	88	313	32	384	9,099
Total liabilities	313,697	539,487	35,705	313	32	382	889,616
Net assets	26,007	(3,929)	59,870	3,159	5,695	20,099	110,901

The tables above present the insurance and reinsurance assets and liabilities of the Syndicate by settlement currency. Approximately 25% of the net technical provisions include claims denominated in Euro, Australian dollar and other non-settlement currencies.

Notes to the Financial Statements at 31 December 2021 (continued)

3. 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 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.

	2021 **Profit or loss for the year** **£'000**	2020 Profit or loss for the year £'000
Interest rate risk		
+ 50 basis points shift in yield curves	(7,226)	(6,935)
-50 basis points shift in yield curves	7,015	5,459
Currency risk		
10 percent increase in GBP/Euro exchange rate	147	316
10 percent decrease in GBP/Euro exchange rate	(147)	(316)
10 percent increase in GBP/US Dollar exchange rate	969	(393)
10 percent decrease in GBP/US Dollar exchange rate	(969)	393
10 percent increase in GBP/Canadian Dollar exchange rate	5,099	5,987
10 percent decrease in GBP/Canadian Dollar exchange rate	(5,099)	(5,987)

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.

Notes to the Financial Statements at 31 December 2021 (continued)

3. Risk management (continued)

f) Fair value estimate (continued)

2021

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities	—	—	4,590	4,590
Debt securities and other fixed income securities	—	527,435	—	527,435
Loans and deposits with credit institutions	—	59	—	59
Total Financial Assets at Fair Value	—	527,494	4,590	532,084

2020

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities	—	—	4,590	4,590
Debt securities and other fixed income securities	—	506,516	—	506,516
Loans and deposits with credit institutions	—	59	—	59
Total Financial Assets at Fair Value	—	506,575	4,590	511,165

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, 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.

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 SCR's 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 member's shares.

3. Risk management (continued)

g) Capital Management (continued)

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 2020 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 member's 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 Statement of financial position on page 22, represents resources available to meet the member's and Lloyd's capital requirements.

4. Analysis of underwriting result

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

2021	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Ceded balance £'000	Total £'000
Direct insurance:						
Marine	19,132	18,860	(16,925)	(4,367)	58	(2,374)
Transport	27,914	27,742	(15,186)	(12,716)	1,050	890
Energy - marine	39,726	37,062	(24,182)	(11,831)	(4,611)	(3,562)
Energy - non marine	(9)	431	2,029	950	(1,226)	2,184
Fire and other damage to property	34,670	33,974	(6,491)	(10,004)	(3,756)	13,723
Third party liability	131,667	115,021	(74,066)	(30,933)	(6,755)	3,267
Other	7,231	3,160	(1,669)	174	(1,012)	653
	260,331	236,250	(136,490)	(68,727)	(16,252)	14,781
Reinsurance	60,590	60,077	(45,802)	(14,395)	(3,136)	(3,256)
	320,921	296,327	(182,292)	(83,122)	(19,388)	11,525

Notes to the Financial Statements at 31 December 2021 (continued)

4. Analysis of underwriting result (continued)

2020	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Ceded balance £'000	Total £'000
Direct insurance:						
Marine	20,722	22,692	(17,761)	(6,449)	1,181	(337)
Transport	29,009	30,182	(14,011)	(13,180)	(1,147)	1,844
Energy - marine	43,079	41,174	(25,523)	(14,586)	(48)	1,017
Energy - non marine	2,217	7,666	(1,888)	(1,852)	(2,989)	937
Fire and other damage to property	36,256	42,640	(41,034)	(13,496)	(394)	(12,284)
Third party liability	104,561	114,938	(115,708)	(34,611)	4,051	(31,330)
Other	3,606	485	(423)	(1,467)	(61)	(1,466)
	239,450	259,777	(216,348)	(85,641)	593	(41,619)
Reinsurance	63,002	61,412	(56,552)	(14,270)	(3,868)	(13,278)
Total	302,452	321,189	(272,900)	(99,911)	(3,275)	(54,897)

5. Claims outstanding

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

	2021 £'000	2020 £'000
Marine, aviation and transport	**2,340**	(31)
Energy	**3,984**	(1,904)
Fire and other damage to property	**8,671**	(2,940)
Third party liability	**(734)**	(17,019)
Total direct	**14,261**	(21,894)
Reinsurance acceptance	**(4,612)**	(14,103)
	9,649	(35,997)

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.

Notes to the Financial Statements at 31 December 2021 (continued)

5. Claims outstanding (continued)

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 2021 in all cases.

Pure Underwriting Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate gross claims	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
at end of underwriting year	84,761	79,842	106,323	129,156	94,315	95,419	92,757	92,893	
one year later	151,147	181,631	223,886	236,155	239,634	196,435	180,597	—	
two years later	162,775	173,945	222,087	256,346	255,758	203,213	—	—	
three years later	164,658	190,068	234,011	261,271	241,810	—	—	—	
four years later	174,254	208,090	259,087	255,639	—	—	—	—	
five years later	197,534	197,529	262,358	—	—	—	—	—	
six years later	197,529	210,711	—	—	—	—	—	—	
seven years later	202,360	—	—	—	—	—	—	—	
Less gross Claims paid	(168,719)	(183,905)	(194,157)	(171,485)	(131,125)	(77,950)	(34,164)	(2,891)	
Gross ultimate claims reserve	33,641	26,806	68,201	84,154	110,685	125,263	146,433	90,002	685,185
Gross ultimate claims reserve for 2013 & prior years									54,977
Gross claims reserves									**740,162**

Pure Underwriting Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate net claims	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
at end of underwriting year	52,327	55,275	75,379	83,388	66,868	93,105	77,636	86,979	
one year later	97,303	124,815	148,717	161,676	150,274	158,634	154,918	—	
two years later	107,096	123,516	149,828	171,216	173,621	153,758	—	—	
three years later	107,157	132,808	159,161	179,676	168,030	—	—	—	
four years later	112,463	141,283	174,704	180,673	—	—	—	—	
five years later	128,177	137,480	175,405	—	—	—	—	—	
six years later	129,916	139,727	—	—	—	—	—	—	
seven years later	129,043	—	—	—	—	—	—	—	
Less net Claims paid	(108,847)	(123,632)	(132,136)	(122,860)	(102,478)	(63,355)	(30,465)	(2,880)	
Net ultimate claims reserve	20,196	16,095	43,269	57,813	65,552	90,403	124,453	84,099	501,880
Net ultimate claims reserve for 2013 & prior years									37,181
Net claims reserves									**539,061**

Notes to the Financial Statements at 31 December 2021 (continued)

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.

	2021			2020		
	Gross Provisions £'000	**Reinsurance Assets £'000**	**Net £'000**	Gross Provisions £'000	Reinsurance Assets £'000	Net £'000
Incurred claims outstanding						
Claims notified	**354,768**	**(124,812)**	**229,956**	346,008	(122,924)	223,084
Claims incurred but not reported	**349,996**	**(95,555)**	**254,441**	280,088	(84,595)	195,493
Balance at 1 January	**704,764**	**(220,367)**	**484,397**	626,096	(207,519)	418,577
Change in prior year provisions	**87,002**	**(15,903)**	**71,099**	187,121	(44,567)	142,554
Expected cost of current year claims	**95,290**	**(5,797)**	**89,493**	85,779	(16,738)	69,041
Claims paid during the year	**(145,414)**	**40,320**	**(105,094)**	(176,264)	43,085	(133,179)
Effects of movements in exchange rates	**(1,480)**	**646**	**(834)**	(17,968)	5,372	(12,596)
Balance as at 31 December	**740,162**	**(201,101)**	**539,061**	704,764	(220,367)	484,397
Claims notified	**339,057**	**(101,272)**	**237,785**	354,768	(124,812)	229,956
Claims incurred but not reported	**401,105**	**(99,829)**	**301,276**	349,996	(95,555)	254,441
Balance at 31 December	**740,162**	**(201,101)**	**539,061**	704,764	(220,367)	484,397
Unearned Premiums						
Balance at 1 January	**153,336**	**(23,523)**	**129,813**	175,803	(33,926)	141,877
Premiums written during the year	**320,921**	**(42,350)**	**278,571**	302,452	(54,752)	247,700
Premiums earned during the year	**(296,327)**	**41,088**	**(255,239)**	(321,189)	64,580	(256,609)
Effects of exchange rates	**(2,287)**	**49**	**(2,238)**	(3,730)	575	(3,155)
Balance at 31 December	**175,643**	**(24,736)**	**150,907**	153,336	(23,523)	129,813

7. Net operating expenses

Net operating expenses include:

	2021	2020
	£'000	£'000
Acquisition costs	**51,532**	61,748
Change in deferred acquisition costs	**(598)**	5,315
Administrative expenses	**30,160**	30,950
Personal Expenses	**7,022**	7,657
Reinsurance commissions and profit participations	**(4,978)**	(5,747)
	83,138	99,923

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

	2021	2020
	£'000	£'000
Balance at 1 January	**28,609**	37,828
Incurred costs deferred	**51,532**	65,475
Amortisation	**(50,344)**	(74,694)
Balance at 31 December	**29,797**	28,609

Administrative expenses include:

	2021	2020
	£'000	£'000
Auditor's remuneration		
Fees payable to the auditor for the audit of these financial statements	**236**	218
Fees payable to the auditor and its associates in respect of: other services pursuant to legislation	**167**	155
	403	373

Fees payable to Deloitte LLP for the audit of the annual accounts of Navigators Underwriting Agency Limited and its subsidiaries are £46k (2020: £43k). There were no fees payable for the provision of non-audit services.

Notes to the Financial Statements at 31 December 2021 (continued)

8. Staff numbers and costs

The Company does not directly employ any staff. All employees engaged on Company business are employed by Navigators Management (UK) Limited ("NMUK"), which charges the Company and other Navigators group companies 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 Company does not specifically identify the cost of employees or directors. Details of staff costs and numbers of the Company are included within the financial statements of NMUK.

9. Emoluments of the Directors of the Managing Agent

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

	2021	2020
	£'000	£'000
Emoluments	1,308	818
Pension costs	65	83
	1,373	901

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

	2021	2020
	£'000	£'000
Emoluments	432	248
Pension costs	25	36
	457	284

10. Investment income

	2021	2020
	£'000	£'000
Income from investments at fair value through profit or loss	8,908	7,036
Gains on the realisation of investments designated on initial recognition at fair value through profit or loss	3,142	1,059
Losses on the realisation of investments designated on initial recognition at fair value through profit or loss	(2,698)	(528)
	9,352	7,567

Notes to the Financial Statements at 31 December 2021 (continued)

10. Investment income (continued)

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.

	2021	2020
	£'000	£'000
Average amount of Syndicate funds available for investment during the year		
Canadian dollar	**69,828**	69,944
Pound sterling	**181,966**	184,249
US dollar	**268,754**	241,469
Total funds available for investment, in sterling	**520,548**	495,662
Total investment return	**(2,547)**	12,514
Annual investment yield		
Canadian dollar	**(0.34) %**	2.63 %
Pound sterling	**(0.31) %**	0.74 %
US dollar	**(0.81) %**	3.85 %
Total annual investment yield, in sterling	**(0.49) %**	2.52 %

11. Financial investments

	Market value		**Cost**	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Shares and other variable yield securities	**4,590**	4,590	**4,554**	4,554
Debt securities and other fixed income securities	**527,435**	506,516	**532,503**	495,681
Deposits with credit institutions	**59**	59	**59**	59
	532,084	511,165	**537,116**	500,294

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.

Notes to the Financial Statements at 31 December 2021 (continued)

13. Other Debtors

	2021	2020
	£'000	£'000
Overseas Federal Tax	118	115
Amounts owed by group undertakings	—	12,506
Sundry Debtors	1,825	427
	1,943	13,048

14. Other Creditors

	2021	2020
	£'000	£'000
Sundry Creditors	111	201
Amounts owed to group undertakings	8,842	4,011
	8,953	4,212

15. Cash and cash equivalents

	2021	2020
	£'000	£'000
Cash at bank and in hand	71,892	45,215
Total cash and cash equivalents	71,892	45,215

Notes to the Financial Statements at 31 December 2021 (continued)

16. Related parties

The ultimate parent company and controlling member is The Hartford Financial Services Group, Inc., which is incorporated in the USA.

The immediate parent company of Navigators Underwriting Agency Limited is Navigators Holdings (UK) Limited.

All trading with Companies within The Hartford Financial Services Group, Inc. have been carried out on an arm's length basis.

A number of third party reinsurance contracts that cover both the Syndicate and related group companies were purchased in the year by the Navigators Insurance Company and The Hartford Fire Insurance Company. The Syndicate is allocated its proportionate share of cost of these contracts which is agreed by local management.

The Syndicate paid Managing Agency fees to Navigators Underwriting Agency Limited ("NUAL") during the year. Total fees incurred, in respect of services provided, amounted to £5.5m (2020: £5.3m). At the year end, the amount owing to NUAL was £0.6m (2020: £(6.2m)).

The Syndicate was recharged expenses of £25.2m (2020: £25.9m) from Navigators Management UK Limited ("NMUK") during the year. At the year end, the amount owed to NMUK was £5.1m (2020: £(6.1)m).

The Syndicate was recharged expenses of £nil (2020: £0.7m) from Navigators Management Company during the year. At the year end, the amount owing to Navigators Management Company was £1.7m (2020: £1.7m).

Navigators Asia Limited ("NAL") charged a fee of £2.0m (2020: £1.6m) to the Syndicate during the year. The fee is based on expenses incurred by NAL plus a mark-up of 10% in respect of underwriting services provided by NAL. At the year end, the amount owing to NAL was £0.2m (2020: £0.4m).

17. Part VII

The Syndicate completed its Part VII transfer of European business relating to 2018 and prior on 30th December 2020 to Lloyds Brussels. Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd's Brussels have been included in the 'gross written premiums' line of the income statement. This is the appropriate treatment that best reflects the connection between economic substance of both the Part VII transfer and the associated reinsurance arrangement, and the resulting economic substance of the combined transaction.

On the balance sheet, certain policy-level balances impacted by the transfer that were previously reflected as amounts arising from direct insurance operations, have been reclassified to amounts arising from inwards reinsurance business.

The transaction has no impact on Member's balance.

Notes to the Financial Statements at 31 December 2021 (continued)

18. 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 member's 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.