018081 - Navigators Insurance Group

Report Revision Date: 07/08/2013

Rating and Commentary [1]	*Financial* [2]	*General Information* [3]
Best's Credit Rating: N/A	**Time Period:** 2nd Quarter - 2013	**Corporate Structure:** 09/17/2001
Rating Rationale: N/A	**Last Updated:** 08/20/2013	**States Licensed:** N/A
Report Commentary: 07/08/2013	**Status:** Quality Cross Checked	**Officers and Directors:** 06/12/2009

Best's Credit Rating Methodology | Disclaimer | Best's Rating Guide

Additional Online Resources

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Rating Activity and Announcements	Corporate Changes & Retirements
Company Overview	AMB Country Risk Reports - United States

[1] The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

[2] The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

[3] The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Associated Parent: The Navigators Group, Inc.

Navigators Insurance Group

Reckson Executive Park, Rye Brook, New York, United States 10573

Tel.: 914-934-8999 **Web:** www.navg.com **Fax:** 914-934-2355

AMB #: 018081 **Associated Parent:** 058430 **NAIC #:** N/A **FEIN #:** N/A

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Rating Rationale

Rating Rationale: The ratings reflect Navigators Insurance Group's leading position as a global provider of insurance to the marine sector, the group's well-diversified book of business, its modest net windstorm exposure, management's conservative approach to risk management, underwriting and claims handling in addition to the group's solid level of capitalization and historical profitability. These positive factors are somewhat offset by the group's declining underwriting results most recently, its elevated ceded reinsurance leverage and growth in relatively new lines of business, some of which have proved unprofitable. The outlooks reflect A.M. Best's expectation that the group will continue to maintain its solid level of capitalization and operating performance, generating overall profitable results throughout market cycles.

The positive rating factors are derived from the group's historically favorable operating performance which, together with capital-raising initiatives, has supported growth and enhanced overall capitalization. The strong operating performance, as evidenced by strong returns on both revenue and surplus, has been driven by underwriting profitability and investment earnings. The group remains committed to underwriting excellence in terms of risk selection, contract terms and conditions and pricing discipline; all have been hallmarks in the generation of loss ratios that have outperformed the average posted by its industry peers. Such discipline and expertise, which have been critical to profitability in the severity-driven ocean marine, casualty and energy lines, are a reflection of the strong risk management culture that remains a part of the Navigators Insurance Group.

Despite the group's strong overall underwriting performance, underwriting results have declined in the past three years due to a combination of recent large industry-wide losses, reinstatement premiums, adverse loss development on certain lines and run-off operations. Increased loss ratios among specific products have led the group to either discontinue certain lines or re-underwrite select diversification lines. As such, the group is susceptible to execution risk as it seeks to balance its overall portfolio risk with non-marine-related products. The group's high ceded leverage is emblematic of its risk management approach wherein the majority of its Gulf Coast wind exposure and portions of its new business are ceded. Following large Gulf Coast storm losses, the group has significantly pared back its gross limits in recent years, effectively mitigating this exposure on a net basis. Somewhat mitigating the elevated ceded reinsurance leverage is the high credit quality of Navigators' reinsurers as well as the presence of letters of credit provided by some reinsurers. In addition, financial flexibility is afforded through the publicly traded parent, The Navigators Group Inc. (NASDAQ: NAVG).

While over 30% of Navigators' gross premium writings are still in the marine sector, diversification of risk is achieved as its remaining premiums are spread across a diverse product line, including general liability coverage for small general and artisan contractors, professional liability, and specialty coverages. The group has expanded its geographic spread of risk through opening regional offices in select cities and introduced the following new products: Accident and Health, Agriculture, Latin American Property and Surety, and Professional Liability reinsurance.

A.M. Best believes the members of Navigators Insurance Group are well positioned at the current rating level. However, the ratings/outlooks may come under negative pressure if an unfavorable earnings trend develops and the group's capital begins to erode.

Rating Unit Members

Navigators Insurance Group (AMB# 018081)

Rating Unit Members (Continued ...)

AMB#	Company	BEST'S FSR	BEST'S ICR	Pool %
001825	Navigators Insurance Company	A	a+	
010761	Navigators Specialty Ins Co	A	a+	

Key Financial Indicators

Period Ending	Statutory Data ($000)					
	Premiums Written		Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
	Direct	Net				
2012	684,827	622,956	10,613	28,564	2,125,374	682,881
2011	626,710	542,391	10,905	16,319	1,922,388	662,162
2010	609,500	429,355	61,311	85,735	1,835,048	686,919
2009	671,866	477,673	75,729	44,549	1,798,368	645,820
2008	711,383	472,689	103,254	33,953	1,700,913	581,166
06/2013	395,742	359,699	21,000	16,595	2,205,999	706,649
06/2012	337,896	315,314	9,919	4,080	2,064,647	673,499

Period Ending	Profitability			Leverage			Liquidity	
	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	103.4	2.7	1.9	14.8	0.9	3.0	149.6	110.9
2011	104.3	3.3	2.3	14.5	0.8	2.7	154.9	120.2
2010	100.8	3.9	14.0	13.2	0.6	2.3	163.9	118.0
2009	98.0	4.3	15.8	9.7	0.7	2.5	159.9	119.0
2008	90.6	4.4	22.3	8.9	0.8	2.7	155.1	158.7
5-Yr Avg	99.5	3.7	10.8	...	...	...	...	...
06/2013	96.6	2.7	6.8	21.4	0.9	3.0	149.3	115.1
06/2012	99.6	2.7	3.6	17.2	0.9	2.9	150.5	102.0

(*) Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.
(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

Business Profile

Navigators Insurance Group (Navigators), through its lead operating unit, Navigators Insurance Company, specializes in underwriting marine and energy, specialty lines and professional liability business. Navigators Specialty Insurance Company underwrites property/casualty business on a non-admitted basis for those types of risks requiring greater flexibility in rating or policy terms and conditions. The group's multi-channel distribution platform utilizes global, national and regional brokers as well as wholesalers.

Navigators has a long-standing reputation for expertise in the marine and energy sector, which includes property and excess liability coverages for marine-related business, offshore energy risks, related transportation and cargo exposures as well as a modest amount of business written in other facets of the marine and energy field.

Specialty operations have underwritten general liability coverages for small general and artisan contractors since 1995, mostly in California, and represent a "post-Montrose" book of business with tight terms and conditions in place to limit or avoid significant construction defect claims. Coverages are generally written on a non-admitted basis and have included construction wrap-up products since 2005. This book has shrunk in recent years on declining economic conditions.

Excess casualty risks are diversified among a large number of industry groups. The remaining portion of the specialty gross premiums includes primary casualty and commercial middle market accounts. The group also enters specialty niche lines, which management believes can produce profitable underwriting results.

The group also writes professional director and officer coverages to a variety of market niches, including lawyers, architects and a variety of public and private companies. This coverage is largely offered to small and mid-size companies as opposed to Fortune 1000 companies. The group also restructured its D&O program by introducing a credit scoring function into its underwriting process. Beginning in 2011, this program was quota-shared with three other insuring participants. In 2010, Navigators sold its middle market commercial book renewal rights and placed its personal umbrella book into run-off. In 2010, the group began reinsuring both accident and health coverages as well as multi-peril crop insurance and added Latin America property reinsurance in 2011 and professional liability reinsurance in 2012. In recent years, the group has also opened a number of regional offices (e.g., Charlotte, Pittsburgh and Philadelphia) to market its existing products.

Scope of Operations

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2012	684,827	9.3	236,498	46.2	298,369	21.3	622,956	14.9
2011	626,710	2.8	161,708	188.7	246,027	4.2	542,391	26.3
2010	609,500	-9.3	56,004	-4.9	236,150	-6.7	429,355	-10.1
2009	671,866	-5.6	58,910	16.0	253,103	-12.6	477,673	1.1
2008	711,383	-1.7	50,807	0.1	289,501	-2.3	472,689	-1.1
5-Yr CAGR	...	-1.1	...	36.0	...	0.1	...	5.4
06/2013	395,742	17.1	249,092	16.3	285,135	20.5	359,699	14.1
06/2012	337,896	6.1	214,107	48.7	236,688	13.4	315,314	24.2

Territory

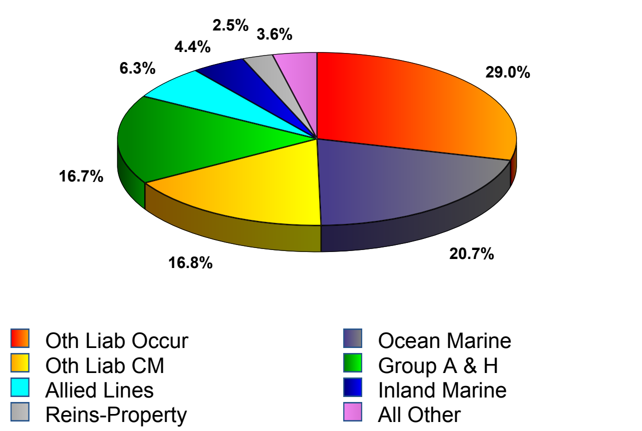
Navigators Insurance Company and Navigators Speciality Insurance Company, wholly owned subsidiaries of The Navigators Group, Inc., collectively are licensed to operate in all 50 states as well as the United Kingdom, the District of Columbia and Puerto Rico.

Business Trends

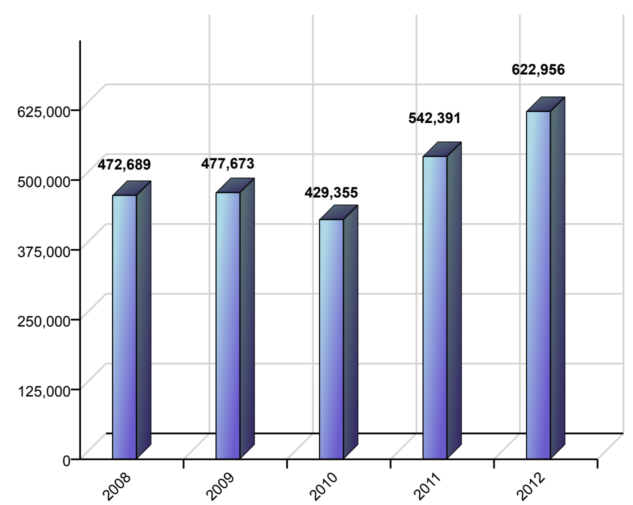
2012 By-Line Business ($000)

Product Line	Direct Premiums Written ($000)	(%)	Reinsurance Premiums Assumed ($000)	(%)	Reinsurance Premiums Ceded ($000)	(%)	Net Premiums Written ($000)	(%)	Business Retention %
Oth Liab Occur	327,557	47.8	...	...	146,851	49.2	180,706	29.0	55.2
Ocean Marine	171,558	25.1	53,464	22.6	96,275	32.3	128,748	20.7	57.2
Oth Liab CM	142,218	20.8	3,293	1.4	40,609	13.6	104,902	16.8	72.1
Group A & H	...	...	103,946	44.0	...	...	103,946	16.7	100.0
Allied Lines	...	...	39,539	16.7	...	...	39,539	6.3	100.0
Inland Marine	33,982	5.0	-3	0.0	6,851	2.3	27,128	4.4	79.8
Reins-Property	...	...	18,002	7.6	2,438	0.8	15,564	2.5	86.5
All Other	9,512	1.4	18,256	7.7	5,346	1.8	22,423	3.6	80.7
Total	684,827	100.0	236,498	100.0	298,369	100.0	622,956	100.0	67.6

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



Business Trends (Continued ...)

By-Line Reserve ($000)

Product Line	2012	2011	2010	2009	2008
Oth Liab Occur	348,583	345,641	352,055	364,776	361,982
Ocean Marine	276,861	294,150	251,330	242,626	227,915
Oth Liab CM	143,594	144,454	129,301	113,176	86,868
Group A & H	32,306	10,665	...	...	...
Allied Lines	33,145	22,453	3,734	5,186	...
Inland Marine	13,818	6,638	5,754	7,022	2,693
Reins-Property	4,735	120	130	280	647
All Other	33,157	48,109	66,124	74,209	68,954
Total	886,198	872,229	808,427	807,275	749,060

Market Share / Market Presence

Geographical Breakdown By Direct Premium Writings ($000)

	2012	2011	2010	2009	2008
California	126,981	133,241	143,740	172,330	217,084
Aggregate Alien	94,419	127,632	122,902	129,887	145,967
New York	59,905	41,027	47,541	49,411	53,560
Texas	51,191	36,535	30,002	31,701	29,738
Washington	29,364	26,160	26,490	26,895	24,629
Florida	28,904	22,835	23,747	27,609	23,605
Illinois	23,794	18,815	16,649	23,510	24,905
New Jersey	20,857	16,700	21,439	29,401	30,810
Pennsylvania	20,145	15,082	12,577	12,332	8,636
Arizona	13,788	10,079	8,132	11,494	11,147
All Other	215,477	178,604	156,280	157,296	141,303
Total	684,827	626,710	609,500	671,866	711,383

Risk Management

Navigators has established an enterprise risk management steering committee composed of its most senior management team including its CEO, CFO and CRO. Reporting to that committee are four sub-committees consisting of underwriting and claims, operational risk, finance and credit risk and compliance and governance risk. Each committee is managed by a member of the steering committee. The group has mapped out its key risks each of which are assigned to sub-committees for monitoring and mitigation with the board having ultimate oversight. Risks are evaluated across a diagram that tracks the potential impact relative to the group's degree of control.

Significant dependence on reinsurance is maintained as the group writes high gross limits, consistent with that of typical commercial marine and energy insurers. Following the group's Katrina loss in 2005, management made a decision to limit its Gulf Coast wind exposure, effectively reducing its gross catastrophe exposure from this book of business. This strategy was tested in 2008 with both Hurricane Ike and Hurricane Gustav with the group incurring $69 million in gross losses. However, pre-tax net losses (including reinstatement premiums from both catastrophes) were $21 million, or approximately 3% of surplus. Since 2009, the group has further reduced its net Gulf Coast exposure, issuing total net limits of less than $10 million.

A significant portion of the group's reinsurance program is placed with foreign reinsurers, primarily in the London market. The majority of reinsurance balances with unauthorized carriers is covered by letters of credit, which partially mitigate associated credit risk exposure.

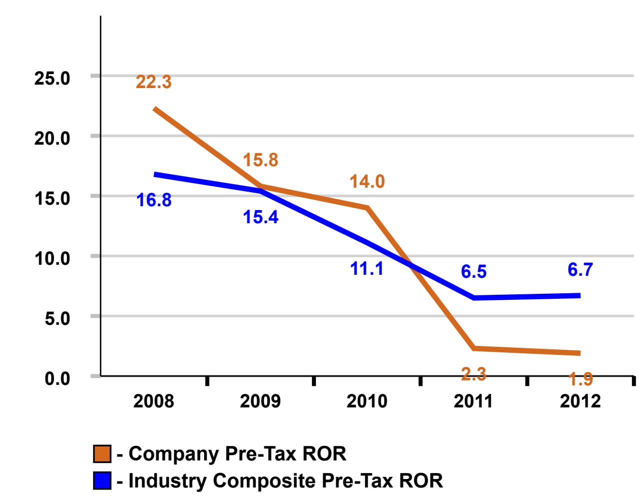
Operating Performance

Operating Results: Although declining over the last five years, Navigators generated pre-tax operating income each year resulting from underwriting profits (in earlier years) and consistent investment income. Underwriting results have fallen since 2010, but return measures remained positive. Realized gains in 2010, 2011 and 2012 helped to enhance total returns in those years and offset underwriting shortfalls.

Profitability Analysis

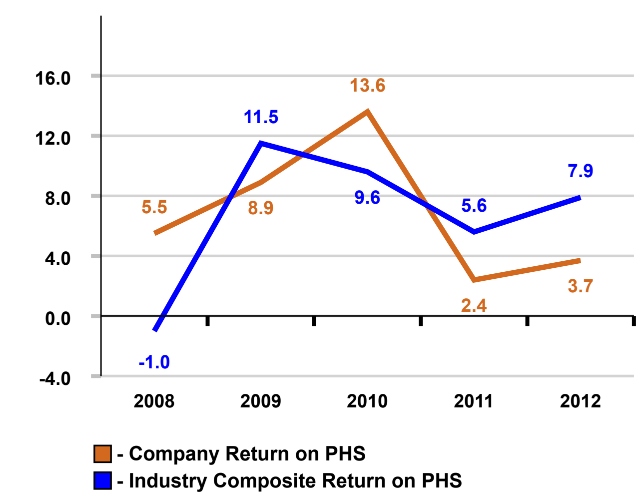
	Company							Industry Composite		
Period Ending	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	10,613	3,589	28,564	24,733	1.9	3.7	95.3	6.7	7.9	92.4
2011	10,905	5,416	16,319	16,170	2.3	2.4	92.8	6.5	5.6	93.1
2010	61,311	52,561	85,735	90,663	14.0	13.6	86.6	11.1	9.6	88.2
2009	75,729	56,381	44,549	54,393	15.8	8.9	84.4	15.4	11.5	84.6
2008	103,254	71,043	33,953	32,168	22.3	5.5	77.0	16.8	-1.0	83.6
5-Yr Avg/Tot	261,812	188,990	209,121	218,127	10.8	6.8	87.5	11.3	6.8	88.4
06/2013	21,000	10,808	16,595	21,206	6.8	5.4	88.7	XX	XX	XX
06/2012	9,919	4,873	4,080	8,972	3.6	2.5	91.5	XX	XX	XX

Pre-Tax ROR Comparison with Industry Composite



* Industry Composite - Commercial Casualty Composite

Return on PHS Comparison with Industry Composite



* Industry Composite - Commercial Casualty Composite

Underwriting Results

Underwriting Results: The group's five- and ten-year average combined ratios have outperformed its commercial casualty peers. Such results are largely due to the group's disciplined underwriting approach leading to profitable or near break-even underwriting results in most years. While the group's loss and loss adjustment expense (LAE) ratio is well below its peer composite, its underwriting expense ratio remains elevated relative to its peer group.

Underwriting Results (Continued ...)

The group's underwriting results have deteriorated since 2010. In 2012, results were impacted by a few industry-wide losses related to the U.S. drought, Superstorm Sandy and Costa Concordia. Further, 2012 was impacted by adverse development in a few specfic lines of business. The increased underwriting loss in 2011 resulted from a combination of several large losses in the group's marine business (including related reinstatement premium expenses), adverse development of loss reserves (particularly those related to its D&O business for underwriting years 2006 through 2009) which impacted both pure losses and the loss adjustment expense ratio, and an increase in underwriting expenses (although it is noted that underwriting expenses increased by a lower percentage than net written premiums, resulting in a decline in the group's expense ratio). In 2010, issues with the D&O program and losses related to the Deepwater Horizon incident, as well as declining premiums contributed to the underwriting loss. Underwriting results fell in 2009 as reserve redundancies declined significantly from the prior year, primarily as a result of adverse development of the D&O product. While overall development of loss reserves has been favorable in the 2009 through 2011 period, the amount of favorable development has been significantly reduced from the earlier years of the five-year period.

Given the development within its specialty liability line over the past two years, management has discontinued writing specific niches, restricted available coverages, increased attachment points and/or formalized a multi-variant rating platform to improve its pricing accuracy.

Despite hurricane losses in 2008, the combined ratio remained below 100. In light of those storm losses, the group imposed policy restrictions on its marine policies, including lower policy limits and limiting its business interruption coverages and significantly restricted its available Gulf of Mexico net wind aggregates.

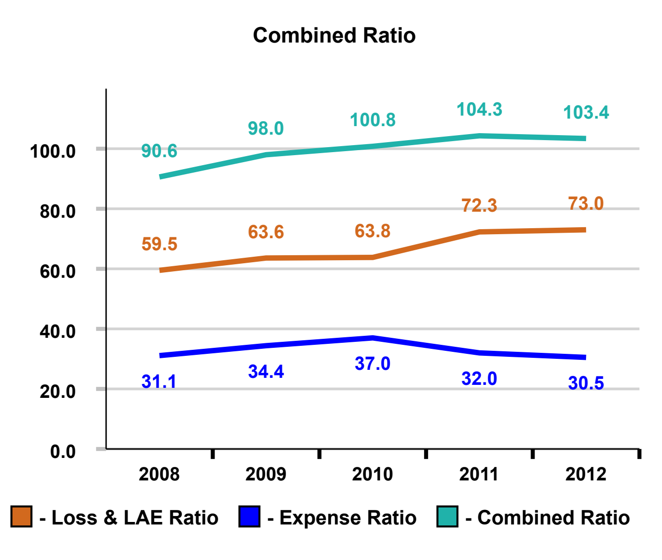
Underwriting Experience

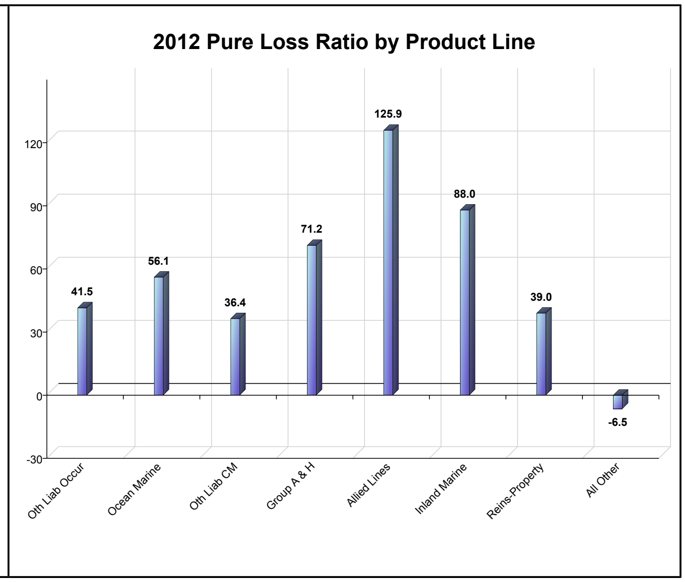
		Loss Ratios			Expense Ratios				
Year	Net Undrw Income ($000)	Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.	Div. Pol.	Comb. Ratio
2012	-35,391	55.1	17.9	73.0	13.4	17.1	30.5	...	103.4
2011	-42,776	50.6	21.7	72.3	14.6	17.4	32.0	...	104.3
2010	-115	44.6	19.2	63.8	13.7	23.3	37.0	...	100.8
2009	10,083	50.7	12.9	63.6	13.2	21.2	34.4	...	98.0
2008	40,471	45.5	14.0	59.5	12.2	18.9	31.1	...	90.6
5-Yr Avg	-27,728	49.6	17.1	66.8	13.4	19.3	32.8	...	99.5
06/2013	-3,060	57.7	11.0	68.7	XX	XX	27.9	...	96.6
06/2012	-11,523	51.8	18.2	70.0	XX	XX	29.6	...	99.6

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Oth Liab Occur	41.5	33.4	29.9	24.5	35.8	33.2
Ocean Marine	56.1	57.5	54.1	59.6	61.5	57.7
Oth Liab CM	36.4	55.2	45.5	69.7	32.7	47.9
Group A & H	71.2	62.8	...	...	...	69.6
Allied Lines	125.9	85.3	53.3	74.4	...	102.6
Inland Marine	88.0	57.6	44.1	44.6	39.1	59.4
Reins-Property	39.0	...	...	...	999.9	36.7
All Other	-6.5	-2.2	48.6	90.7	60.0	51.0
Total	55.1	50.6	44.6	50.7	45.5	49.6

Underwriting Results (Continued ...)





Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
California	44.7	38.2	27.5	7.8	44.5	31.9
Aggregate Alien	86.0	46.1	82.0	62.2	57.0	65.7
New York	63.2	42.3	56.5	61.9	35.8	52.1
Texas	46.9	75.9	44.2	125.9	57.1	68.6
Washington	29.5	95.4	44.4	91.2	43.2	60.2
Florida	51.9	43.0	103.2	105.6	76.7	76.7
Illinois	33.0	21.3	41.6	91.4	40.8	47.7
New Jersey	39.1	56.0	62.2	59.0	44.4	52.8
Pennsylvania	39.2	44.5	64.6	103.8	48.1	57.6
Arizona	52.8	138.9	55.8	142.3	67.9	90.4
All Other	47.8	46.0	54.8	49.8	54.9	50.3
Total	53.1	48.7	54.7	52.6	50.3	51.9

Investment Results

Investment Results: Navigators' investment strategy remains conservative, however the portfolio has produced a five-year average yield on invested assets that falls below that of the commercial casualty composite. Due to the depressed interest rate environment experienced in recent years, management has cut back on the duration of its assets, staying short term while rates remain low. By keeping maturities short, management expects to take advantage of rising rates in the future.

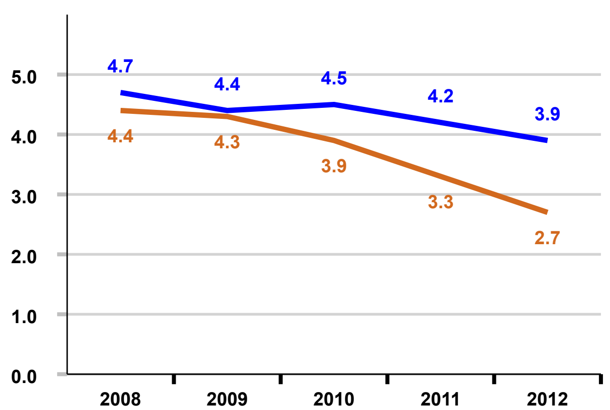
Navigators' high-quality, actively managed investment portfolio is spread across U.S. Treasury securities, municipal, mortgage- and asset-backed bonds and corporate issues. The employed strategy has produced favorable levels of investment income on an annual basis with modest realized capital gains (with the exception of 2008 and 2009) generated over the years from its small equity portfolio. As yields continued to fall over the last three years, Navigators' net investment income shrank somewhat although the group's increased equity holdings led to a slight increase in earned dividends. In recent years, the group's total return has benefitted from realized gains and generally positive changes in its unrealized gain position. The group incurred significant realized losses on its common stock portfolio in 2008, which was impacted by impairment losses recorded for accounting purposes. Although the group continued to incur realized capital losses on its equity portfolio in 2009, unrealized capital gains on its stock portfolio contributed to surplus growth on the year.

Investment Results (Continued ...)

Investment Gains ($000)

	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	46,512	24,976	-3,832	-14.2	2.7	4.1	3.9	-5.4	3.9
2011	54,212	10,903	-149	-13.3	3.3	3.9	3.9	-5.2	4.2
2010	62,535	33,174	4,929	-4.0	3.9	6.0	6.4	3.6	4.5
2009	65,132	-11,832	9,844	2.9	4.3	3.5	4.1	-8.5	4.4
2008	63,269	-37,090	-1,785	9.5	4.4	1.8	1.7	-6.0	4.7
5-Yr Avg/Tot	291,660	20,131	9,007	-3.7	3.7	3.9	4.0	-4.4	4.4
06/2013	24,439	5,787	4,611	10.0	2.7	4.6	4.3	XX	XX
06/2012	22,222	-793	4,892	-25.9	2.7	3.3	3.4	XX	XX

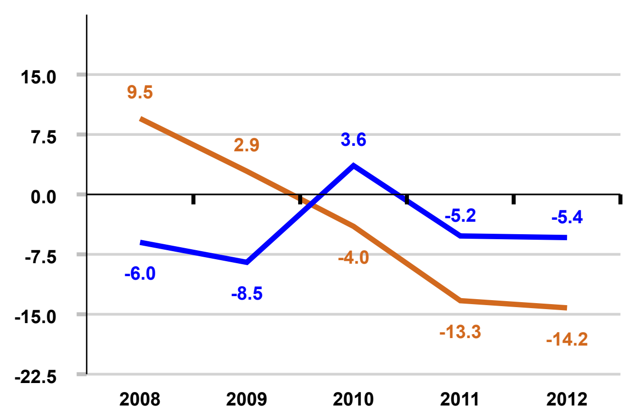
Investment Yield vs Industry



- Company Investment Yield (%)
- Industry Composite Investment Yield (%)

* Industry Composite - Commercial Casualty Composite

Investment Income Growth vs Industry



- Company Investment Income Growth (%)
- Industry Composite Investment Income Growth (%)

* Industry Composite - Commercial Casualty Composite

Balance Sheet Strength

Capitalization

Capitalization: Navigators' risk-adjusted capitalization is solid, as measured by Best's Capital Adequacy Ratio (BCAR), and more than supports its current rating. With the increases in surplus over several years, underwriting leverage has remained in line with the commercial casualty composite and favorable levels of risk-adjusted capitalization have been sustained even as net premiums written grew in 2011 and 2012. Navigators has internally generated capital over the last five years. Surplus growth over this period has largely followed strong pre-tax earnings.

The group has significantly reduced its Gulf Coast wind exposure by lowering its gross limits and ceding the majority of risk to third-party reinsurers. While the sum of net limits reached over $200 million at year-end 2008, net offered limits were significantly reduced during 2009. Current maximum available limits on such policies are (on a gross basis) less than $10 million for both property damage and business interruption on a combined basis. Further, the company offers business interruption coverage only on a limited basis. Net limits are less than $10 million in total. As such, the group's catastrophe exposure is largely credit related.

In addition to modest debt service, profits from the domestic insurance companies have been utilized to further the group's expansion overseas, primarily in London. From a group perspective, the standard is to provide dividends that are less than or equal to 50% of net statutory income.

Historically, significant surplus growth has been derived from capital contributions from the publicly traded parent, The Navigators Group, Inc. (Navigators Inc.). In September 2005, a $250 million multipurpose shelf registration was filed with and approved by the SEC. This shelf was refreshed in 2009 under nearly identical terms. The shelf includes the option to issue debt securities, common and preferred shares as well as depositary shares. In the fourth quarter of 2005, Navigators Inc. drew down on a portion of its initial shelf through an equity offering that led to a $120 million contribution to its domestic insurance subsidiary. In April of 2006, the parent again accessed its shelf and issued a $125 million debt offering of which $100 million was contributed to Navigators Insurance Company. A portion of the $125 million senior notes were retired early at a gain and the remaining $114 million of senior notes mature on May 1, 2016, and pay interest at a rate of 7% annually. Further, consolidated financial leverage is a very low 11.5% (debt-to-total-capital), and interest coverage ratios more than support the group's current rating level. As a result, the group has strong financial flexibility. The Company renewed its existing $500 million shelf registration in July 2012.

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	10,613	24,976	7,024	-3,832	-15,000	10,987	20,719	3.1
2011	10,905	10,903	5,489	-149	-45,000	4,073	-24,758	-3.6
2010	61,311	33,174	8,750	4,929	-40,000	-9,564	41,099	6.4
2009	75,729	-11,832	19,348	9,844	-25,000	35,261	64,654	11.1
2008	103,254	-37,090	32,211	-1,785	-20,000	-9,670	2,499	0.4
5-Yr Total	261,812	20,131	72,822	9,007	-145,000	31,086	104,213	3.4
06/2013	21,000	5,787	10,192	4,611	...	2,563	23,768	3.5
06/2012	9,919	-793	5,046	4,892	-10,000	12,366	11,338	1.7

Capitalization (Continued ...)

Quality of Surplus ($000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	...	...	366,122	316,759	682,881	21,678	704,559
2011	...	...	380,486	281,675	662,162	19,106	681,268
2010	...	...	378,861	308,059	686,919	28,783	715,703
2009	...	...	376,073	269,747	645,820	27,869	673,689
2008	...	...	366,122	215,044	581,166	23,201	604,367
06/2013	...	...	366,122	340,527	706,649	21,678	728,327
06/2012	...	...	366,122	307,377	673,499	19,106	692,605

Underwriting Leverage

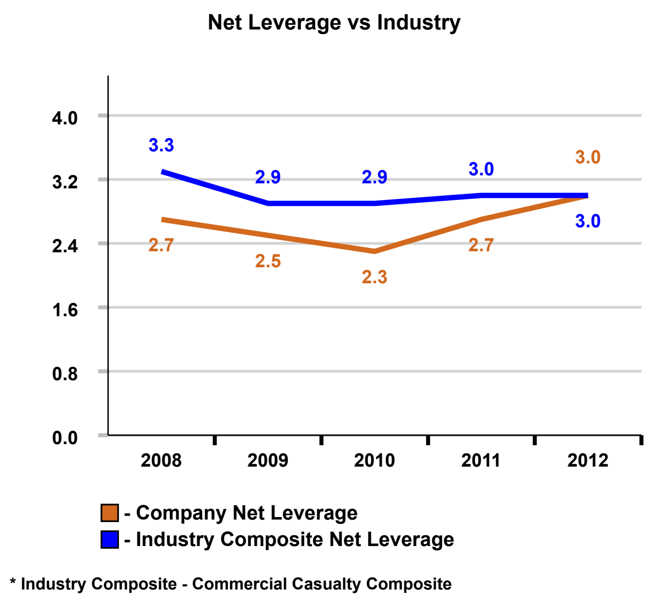
Underwriting Leverage: Gross underwriting leverage, at year end 2012, remains slightly elevated when compared to the preceding four years in the period. Although ceded leverage is somewhat elevated as a result of the extensive utilization of reinsurance to mitigate exposure to certain high limit risks, credit risk is mitigated through the use of a diversified group of highly rated reinsurers and letters of credit received from foreign reinsurers. While overall premiums and liabilities, both net and gross, have grown over a five-year period, surplus growth has generally kept pace with these increases. Net premium leverage increased in 2011 and 2012 as premiums grew.

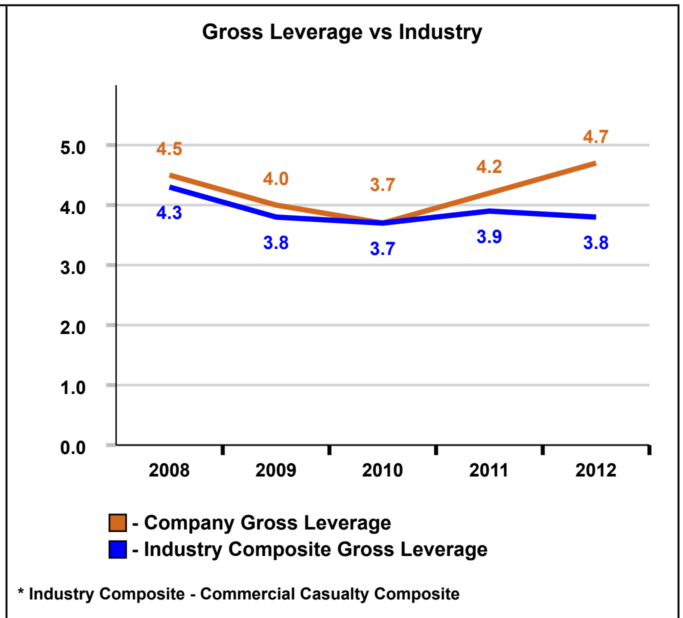
Leverage Analysis

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	0.9	1.3	3.0	4.7	0.8	1.5	3.0	3.8
2011	0.8	1.3	2.7	4.2	0.8	1.5	3.0	3.9
2010	0.6	1.2	2.3	3.7	0.7	1.5	2.9	3.7
2009	0.7	1.2	2.5	4.0	0.7	1.5	2.9	3.8
2008	0.8	1.3	2.7	4.5	0.9	1.6	3.3	4.3
06/2013	0.9	1.3	3.0	XX	XX	XX	XX	XX
06/2012	0.9	1.3	2.9	XX	XX	XX	XX	XX

Current BCAR: 213.3

Underwriting Leverage (Continued ...)





Ceded Reinsurance Analysis ($000)

	Company				Industry Composite		
Year	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	1,147,557	67.6	124.4	168.0	82.6	59.1	84.5
2011	1,021,996	68.8	117.2	154.3	81.6	59.4	84.5
2010	1,004,578	64.5	111.9	146.2	81.2	57.6	80.4
2009	1,005,054	65.4	116.4	155.6	82.6	61.2	84.8
2008	1,065,233	62.0	133.5	183.3	84.6	70.6	97.6

2012 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	105,454	236,681	118,551	...	460,686
Foreign Affiliates	58	79	...	...	138
US Insurers	214,565	322,270	127,181	-1,248	662,769
Pools/Associations	101	...	...	...	102
Other Non-Us	95,490	75,906	16,678	-1,895	186,180
Total(ex Us Affils)	310,214	398,255	143,859	-3,143	849,189
Grand Total	415,668	634,938	262,410	-3,142	1,309,875

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: While overall development has remained favorable, select lines of business have developed adversely. In most recent years, the level of favorable development was markedly less than what had been incurred in more recent years, primarily as a result of adverse development incurred on Navigators' specialty liability lines of business. Favorable development of prior year net reserves as recorded in the group's annual statutory filing totaled $16.7 million in 2012.

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	818,304	818,304	...	...	143.2	818,304	100.0
2011	805,627	788,906	-2.1	-2.5	167.0	503,684	63.8
2010	746,038	726,111	-2.7	-2.9	165.5	345,332	47.6
2009	747,069	707,926	-5.2	-6.1	147.8	235,506	33.3
2008	690,675	648,388	-6.1	-7.3	140.0	162,688	25.1
2007	584,438	514,377	-12.0	-12.1	116.0	108,422	21.1

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	314,620	314,620	...	314,620	72.7	103.1
2011	268,275	267,810	-0.2	158,352	70.6	102.6
2010	224,306	225,921	0.7	109,826	66.9	103.9
2009	247,887	242,937	-2.0	72,818	65.3	99.8
2008	264,636	249,604	-5.7	54,266	67.1	98.2
2007	243,976	244,330	0.1	31,586	68.0	97.4

Asbestos And Environmental Reserves Analysis

	Company						Industry Composite		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net Incurred But Not Reported (IBNR) Mix (%)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)
2012	15,979	58.2	21.7	36.0	0.0	0.1	9.1	0.6	0.6
2011	16,603	71.8	44.9	44.2	-0.1	0.0	9.1	0.5	0.6
2010	17,748	68.7	42.0	84.1	0.4	0.0	7.2	0.7	0.5
2009	16,472	71.4	45.6	...	-0.3	...	...	0.6	...
2008	18,023	74.5	45.9	...	0.0	...	...	0.3	...

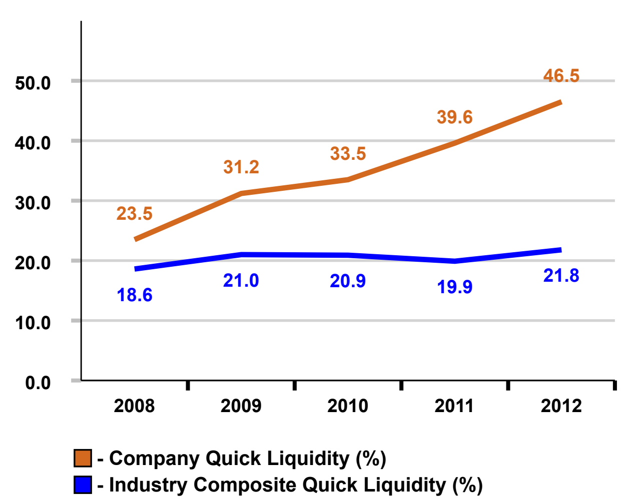
Liquidity

Liquidity: The group maintains a very sound liquidity position with quick and current liquidity ratios above industry averages. Positive underwriting and operating cash flows have been produced over the past five years, enhancing the group's invested asset and liquidity position. Loss payments have increased since 2009 leading to a sharp drop in operating cash flows. Nonetheless, operating cash flow remained positive, although at reduced levels. Paid losses have increased under increased storm loss activity and increased losses on its liability lines. The group's asset portfolio, though largely invested in government, corporate and municipal bonds, allocates enough into cash and short-term securities to supply sound liquidity.

Liquidity Analysis

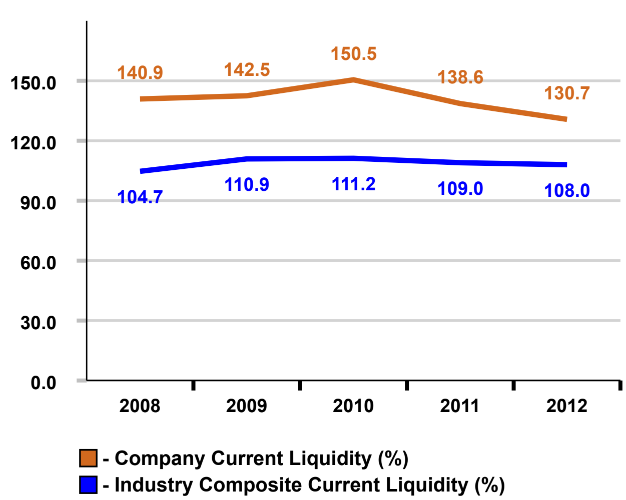
	Company				Industry Composite			
Year	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	46.5	130.7	149.6	13.1	21.8	108.0	144.9	10.9
2011	39.6	138.6	154.9	10.6	19.9	109.0	144.5	10.3
2010	33.5	150.5	163.9	6.7	20.9	111.2	146.2	9.0
2009	31.2	142.5	159.9	7.6	21.0	110.9	146.0	9.1
2008	23.5	140.9	155.1	7.6	18.6	104.7	140.8	11.9
06/2013	XX	125.0	149.3	10.2	XX	XX	XX	XX
06/2012	XX	127.9	150.5	10.2	XX	XX	XX	XX

Quick Liquidity vs Industry



* Industry Composite - Commercial Casualty Composite

Current Liquidity vs Industry



* Industry Composite - Commercial Casualty Composite

Liquidity (Continued ...)

Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	20,624	65,304	-30,402	103.5	110.9	98.2	110.7
2011	39,333	90,245	75,294	109.1	120.2	96.5	107.6
2010	11,543	77,757	22,870	102.7	118.0	96.6	108.6
2009	41,096	84,417	-42,092	109.9	119.0	98.4	109.5
2008	155,681	192,671	10,976	152.4	158.7	101.2	112.6
5-Yr Total	268,277	510,393	36,646	...	...	...	...
06/2013	23,314	44,289	953	108.1	115.1	XX	XX
06/2012	-8,205	5,615	-23,626	96.9	102.0	XX	XX

Investments

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	...	...	...	14.8	14.8	0.2	7.1	10.3
2011	...	...	...	14.5	14.5	0.2	7.4	9.5
2010	0.5	...	...	12.7	13.2	0.2	7.2	9.0
2009	...	...	...	9.7	9.7	0.2	6.0	8.2
2008	...	...	...	8.9	8.9	0.2	5.4	9.1

Investments - Bond Portfolio

2012 Distribution By Maturity

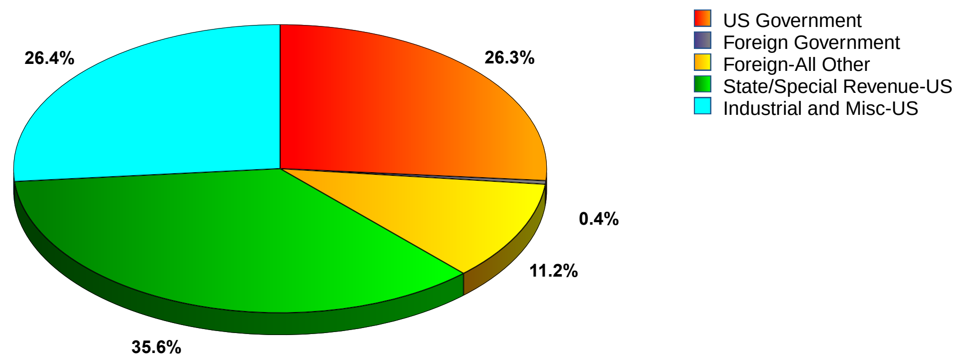
	Years					
	0-1	1-5	5-10	10-20	20+	Years Average Maturity
Government	4.4	17.0	5.0	0.9	0.1	3.9
Government Agencies & Muni.	5.5	13.9	10.6	2.0	2.9	6.5
Industrial & Misc.	3.8	23.5	10.3	0.2	0.1	4.0
Hybrid Securities	...	...	0.1	...	...	8.0
Total	13.6	54.4	26.0	3.0	3.0	4.8

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	1,612,686	1,456,224	1,497,538	1,462,865	1,386,509
US Government	26.3	14.9	15.5	16.2	12.6
Foreign Government	0.4	0.5	0.4	0.4	0.5
Foreign-All Other	11.2	9.4	9.5	1.9	2.2
State/Special Revenue-US	35.6	45.0	42.5	60.6	62.2
Industrial and Misc-US	26.4	30.2	32.2	20.9	22.5

2012 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	12.3	10.7	8.0	1.2	1.6
Public Issues	87.7	89.3	92.0	98.8	98.4

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	94.2	95.7	94.7	96.5	92.4
Class 2	5.8	4.3	5.0	3.5	7.6
Class 3	...	...	0.2	...	...

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	101,297	95,849	87,258	62,610	51,802
Unaffiliated Common	100.0	100.0	100.0	100.0	100.0

Investments - Mortgage Loans And Real Estate

	2012	2011	2010	2009	2008
Mortgage Loans and Real Estate (000)	1,185	1,217	1,249	1,280	1,312
Property Occupied by Company	100.0	100.0	100.0	100.0	100.0

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	104,513	133,187	70,251	48,424	74,679
Cash	77.2	89.3	78.7	67.0	99.8
Short-Term	18.7	8.7	...	...	...
All Other	4.1	1.9	21.3	33.0	0.2

Management

The Navigators Group, Inc., is a publicly owned holding company which trades on the NASDAQ stock exchange under the symbol NAVG. Approximately 20% of the stock is owned by Terence N. Deeks and family.

Terence N. Deeks served as chairman of the board of The Navigators Group, Inc., from its formation in 1982 until May 2013, when Mr. Deeks retired from the Chairman role. Mr. Deeks continues to serve as a director. Robert V. Mendelsohn was appointed Chairman of the Board upon Mr. Deeks retirement. Mr. Mendelsohn has been active in the insurance industry in excess of 30 years. Stanley A. Galanski serves as president and CEO, as well as a director, of The Navigators Group, Inc., and as chairman, president and CEO of both insurance companies. Mr. Galanski has been active in the insurance industry since 1980.

Officers And Directors

Officers

Chairman of the Board Terence N. Deeks
President and CEO Stanley A. Galanski
EVP and CFO Paul J. Malvasio
SVP and Chief Information Officer R. Scott Eisdorfer
SVP, Chief Compliance Officer and Chief Risk Officer Bruce Bynes
SVP and General Counsel Elliot S. Orol
SVP Jane E. Keller
Vice President and Treasurer Salvatore A. Margarella

Directors

H.J. Mervyn Blakeney
Peter A. Cheney
Terence N. Deeks
Robert W. Eager, Jr.
Stanley A. Galanski
Leandro S. Galban, Jr.
John F. Kirby
Marc M. Tract
Robert F. Wright

Reinsurance

Navigators Insurance maintains proportional and non-proportional reinsurance with U.S. domestic reinsurers, Lloyd's of London, and other international companies. Quota share marine treaties are in place for primary liability, offshore energy, transport, and war business. Excess of loss contracts provide up to $50 million on a net retained line basis to protect per risk on marine and offshore energy business.

Reinsurance (Continued ...)

The marine and offshore energy excess of loss program attaches at $10 million per risk and occurrence and $10 million per occurrence for catastrophe losses. The company maintains catastrophe layers to protect against all catastrophic events emanating from the marine and non Gulf of Mexico offshore energy portfolios within an acceptable range of expected outcomes on a PML basis. The Gulf of Mexico offshore energy windstorm exposures are currently contained within our retention.

Navigators' other lines of business are reinsured on either a quota-share or excess of loss basis. Primary casualty business is reinsured above the company's $2 million retention on an excess of loss basis. The excess casualty program is subject to a variable quota share. A quota share is in place for the D&O business, and the E&O program is protected by an excess of loss with a $2.2 million retention. Maximum retentions under the inland marine excess of loss program are $2.0 million.

Consolidated Balance Sheet ($000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	1,612,686	1,456,224	75.9	75.8
Preferred Stock	...	...	...	...
Common Stock	101,297	95,849	4.8	5.0
Cash & Short-Term Invest	100,202	130,604	4.7	6.8
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	4,310	2,583	0.2	0.1
Investments in Affiliates	...	...	...	...
Real Estate, Offices	1,185	1,217	0.1	0.1
Total Invested Assets	1,819,681	1,686,477	85.6	87.7
Premium Balances	215,661	147,389	10.1	7.7
Accrued Interest	10,786	12,235	0.5	0.6
Life department	...	...	...	...
All Other Assets	79,246	76,287	3.7	4.0
Total Assets	2,125,374	1,922,388	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	886,198	872,229	41.7	45.4
Unearned Premiums	326,565	275,048	15.4	14.3
Conditional Reserve Funds	21,678	19,106	1.0	1.0
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	208,051	93,843	9.8	4.9
Total Liabilities	1,442,493	1,260,226	67.9	65.6
Surplus notes	...	...	...	...
Capital & Assigned Surplus	366,122	380,486	17.2	19.8
Unassigned Surplus	316,759	281,675	14.9	14.7
Total Policyholders' Surplus	682,881	662,162	32.1	34.4
Total Liabilities & Surplus	2,125,374	1,922,388	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2013	06/30/2013
Bonds	1,592,178	1,595,021
Common Stock	116,900	138,549
Cash & Short-Term Invest	87,555	101,156
Other Investments	1,239	1,194
Total Invested Assets	1,797,871	1,835,919
Premium Balances	286,047	271,192
Accrued Interest	11,693	11,737
Reinsurance Funds	34,758	38,529
All Other Assets	49,612	48,621
Total Assets	2,179,980	2,205,999

Liabilities & Surplus	03/31/2013	06/30/2013
Loss & LAE Reserves	913,279	919,027
Unearned Premiums	388,553	375,386
Conditional Reserve Funds	21,678	21,678
All Other Liabilities	162,197	183,258
Total Liabilities	1,485,707	1,499,350
Capital & Assigned Surp	366,122	366,122
Unassigned Surplus	328,152	340,527
Total Policyholders' Surplus	694,274	706,649
Total Liabilities & Surplus	2,179,980	2,205,999

Consolidated Summary Of 2012 Operations ($000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	571,439	Premiums collected	603,612
Losses incurred	314,905	Benefit & loss-related pmts	291,334
LAE incurred	102,177		
Undwr expenses incurred	189,748	LAE & undwr expenses paid	291,655
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	-35,391	Underwriting cash flow	20,624
		Net transfer	...
Net investment income	46,512	Investment income	59,571
Other income/expense	-508	Other income/expense	-508
Pre-tax operating income	10,613	Pre-tax cash operations	79,687
Realized capital gains	24,976		
Income taxes incurred	7,024	Income taxes pd (recov)	14,382
Net income	28,564	Net oper cash flow	65,304

Interim Income Statement ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums earned	310,878	273,125	37,754
Losses incurred	179,325	141,476	37,849
LAE incurred	34,327	49,704	-15,377
Undwr expenses incurred	100,286	93,467	6,819
Other expenses incurred	...	...	...
Dividends to policyholders	...	...	...
Net underwriting income	-3,060	-11,523	8,463
Net investment income	24,439	22,222	2,217
Other income/expense	-380	-780	400
Pre-tax operating income	21,000	9,919	11,081
Realized capital gains	5,787	-793	6,581
Income taxes incurred	10,192	5,046	5,146
Net income	16,595	4,080	12,515

Interim Cash Flow ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums collected	310,289	257,800	52,489
Benefit & loss-related pmts	149,214	118,964	30,250
LAE & undwr expenses paid	137,761	147,041	-9,280
Dividends to policyholders	...	...	...
Underwriting cash flow	23,314	-8,205	31,519
Net transfer	...	...	...
Investment income	26,767	27,082	-315
Other income/expense	-380	-780	400
Pre-tax cash operations	49,701	18,097	31,604
Income taxes pd (recov)	5,412	12,482	-7,070
Net oper cash flow	44,289	5,615	38,674

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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