



TRAVELERS INSURANCE COMPANY LIMITED

2016 Annual Report

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The Company

Directors

Sir John Carter	(Independent Non-Executive)
Anthony Coughlan	(Independent Non-Executive)
Gary Dibb	(Independent Non-Executive)
Stephen Eccles	(Non-Executive)
Paul Eddy	(Non-Executive)
Sean Genden	(Non-Executive)
Mike Gent	(Executive)
Graham McKean	(Independent Non-Executive)
Kevin Smith	(Chairman)
Matthew Wilson	(Chief Executive Officer)

Company Secretary

John Abramson

Registered Office

Exchequer Court, 33 St. Mary Axe
London EC3A 8AG
Registered in England No 1034343

Bankers

National Westminster Bank Plc
Citibank NA
Barclays Bank Ireland Plc

Auditors

KPMG LLP

Strategic Report of the Directors

The Directors of Travelers Insurance Company Limited (the “Company”) present their strategic report for the year ended 31 December 2016.

Principal activity

The principal activity of the Company is the transaction of commercial lines general insurance business in the UK and Ireland.

Overview

Travelers Insurance Company Limited reported a £8.4m loss in 2016 (2015 £38.4m loss) and a 123.3% combined ratio (2015 131.4%). This result reflects the impact of the announcement from the Lord Chancellor in February 2017 of the change in the discount rate used for bodily injury claims (“the Ogden rate”), from 2.5% to minus 0.75%. Excluding the impact of the adjustment for the Ogden rate the Company reported a 97.8% combined ratio and a £34.2m post tax profit. The resulting charge (“Ogden charge”) amounted to £50.0m pre-tax and £42.6m post-tax. The significant improvement in the underlying result over the prior year reflected increased prior year reserve releases, pre the Ogden charge, of £25.5m (2015 £0.7m), more favourable weather experience following the December storms of 2015 which cost the Company £23m and a lower incidence of large losses.

Of the Ogden charge of £50m, £46.2m related to prior accident years, and almost two thirds related to certain books of business the Company has exited and are now in run off. We do not anticipate this will have a significant impact on the Company’s results going forward.

Financial results

Gross written premiums reduced by 5.6% to £221.5m (2015 £234.4m). The major driver of this reduction was the non-renewal of certain large accounts where the underwriting profitability was poor and we were unable to secure the necessary improvements in terms and conditions to redress this. Renewal retention was down on 2015 driven by these large accounts. Rate change was modestly positive at 2.5% and new business levels were broadly consistent with the prior year.

The investment return improved to £25.7m (2015 £17.9m), reflecting a lower level of realised investment losses than in the prior year. We continue to invest wholly in high quality corporate and government bonds with an average credit quality of AA+ (2015 AA+). We do not plan any material changes to this investment strategy. We expect low investment returns

to persist for the foreseeable future, which underlines the importance of increasing underwriting profits to achieve our target level of returns. Investments under management at 31 December 2016 totalled £1.08bn (2015 £1.10bn).

Trading environment

The trading environment remained challenging in 2016. We achieved positive rate change, but this was only modestly ahead of claims inflation trends. Our focus continues to be on improving the Company’s underwriting profitability. This will involve taking appropriate underwriting and pricing actions to achieve our profitability targets on those portfolios not currently delivering the required level of return and focusing our sales efforts on growing those lines where we are currently achieving appropriate returns.

New products and services

During the year the Company continued to develop its large corporate accounts offering and started to write transactional liability insurance and public company D&O. The Company also launched a direct to consumer operation targeting small businesses. The Surety business previously written by a UK affiliate company began to be written by the Company during the year. This business is wholly reinsured with an affiliate company based in the US.

Capital management

During 2016 the Company did not pay a dividend (2015 £nil). Although our capital position has reduced following the Ogden charge, our financial strength remains strong with net assets of £436.9m (2015 £440.9m). As of 17 May 2017 our financial strength ratings are A (excellent), from AM Best, and AA from Standard and Poor’s. Following the Lord Chancellor’s announcement in respect of the bodily injury discount rate, the Company has strengthened its capital position by reducing by £50m the investments that it had previously pledged to Lloyd’s to support the capital needs of an affiliate company.

Brexit

The Company trades in Europe through its branch in Ireland, and to a modest degree by writing business on a freedom of services basis to support its UK and Ireland insureds’ exposures in the European Union (“EU”). Approximately 15% of the Company’s gross written premiums are written in the EU, the majority of which is written through its branch in Ireland. We are currently implementing plans to ensure we retain our ability to support our customers in EU markets following the UK’s exit from the EU in 2019.

Strategic Report of the Directors *continued*

Key performance indicators (KPIs)

The KPIs the Directors use to manage the business are discussed in the Financial Results section of the Strategic Report above.

Principal risks and uncertainties

The Board sets the risk appetite and reviews it on a formal basis annually as part of the business planning process. It reviews it on an ongoing basis as part of its regular business review processes. The Company has a Board Risk and Remuneration Committee and an Executive Risk Committee which meet regularly to review and update risks and issues arising from the risk register and to monitor performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Company are as set out below.

Insurance risk

Insurance risk relates to underwriting, claims management and the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities.

The Company manages insurance risk by setting an appetite annually through the business planning process, which sets down targets for underwriting volumes, pricing sufficiency and retentions by class of business. Management monitors performance against the business plan throughout the year. The Company uses catastrophe modelling software to model maximum probable loss from catastrophe exposed business. Reserve adequacy is monitored through quarterly internal actuarial review. The Underwriting Committee oversees underwriting risk and the Finance Committee oversees reserving risk.

Credit risk

The primary source for credit risk arises from the risk of default by one or more of the Company's reinsurers or investment counterparties. The Company operates a rigorous policy for the selection of reinsurers and managing the quantum of exposure ceded to an individual reinsurer. The Company has a conservative appetite to investment counterparty credit risk. Exposures to individual counterparties are monitored against agreed limits and the overall investment portfolio has an average credit quality of AA+. The Finance Committee oversees this risk type.

Market risk

The primary source of market risk is the risk of adverse movements in net assets due to movements in interest rates, currency rates and the market value of securities. Market risk exposures are monitored through the Finance Committee.

Operational risk

The primary source of operational risk is the failure of people, processes or systems. These risks are managed through well documented policies and procedures, sound internal control processes and business continuity management procedures. Operational risks are monitored by the Executive Risk Committee.

Regulatory risk

Regulatory risk comprises the failure to comply with relevant regulations and laws. During the year the Company was in full compliance with the capital requirements imposed by its regulator, the Prudential Regulation Authority. There were no changes in the Company's approach to capital risk management during the current or prior year. The Company is continuing to be in full compliance with its regulatory capital requirements under the Solvency II regime which commenced on 1 January 2016.

Conduct risk

Conduct risk is the risk that the Company (or its agents) will fail to pay due regard to the interests of its customers or will fail to treat them fairly at all times. Conduct risk exposures are monitored through the Executive Risk Committee.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet operational cash flow requirements. Liquidity risk is monitored through the Finance Committee.

On behalf of the board

Matthew Wilson

Chief Executive Officer

Travelers Insurance Company Limited

17 May 2017

Directors' Report

The Directors present their annual report together with the financial statements for the 12 months ended 31st December 2016.

Principal activity

The principal activity of the Company is contained within the Strategic Report.

Business review

An analysis of the performance of the Company is contained within the Strategic Report and the results for the financial year are set out on pages 7 and 8.

Directors and directors' interests

All the directors set out on page 2 served throughout the year.

Disclosure of information to the auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Audit Committee

The Board has an established Audit Committee (the "Committee"). The Committee meets at least three times a year. The Committee comprises the independent non-executive directors. Mr Coughlan was Chairman of the Audit Committee during the year. The Committee's terms of reference require it to take an independent view of the Company's external financial reporting, accounting policies and practices. It considers the appointment and fees, both audit and non-audit, of the external auditors. The Committee also reviews the annual plans of both the external and internal auditors and reviews reports received from both in respect of their findings. The Chief Financial Officer, Head of Internal Audit and the Company Secretary usually attend the Committee meetings.

Going concern

The Company has considerable financial resources together with prudent investment guidelines, a high quality of invested assets, sound underwriting procedures, strong controls and risk mitigating processes, (including, but not limited to, reinsurance) and the support of a financially strong parent company. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. The Directors are confident that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Indemnity insurance

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and as at the date of this report.

Supplier payment policies

All third party supplier invoices are settled on the Company's behalf by Travelers Management Limited, an affiliate of the Company. The average payment terms are disclosed in that company's accounts. The Company also has a management agreement with Travelers Management Limited, who employs the Company's personnel. The employment policies are also disclosed in that company's accounts.

Environment

The Company does not have a major direct environmental impact as it operates in a service based, non-manufacturing industry. However, it is aware of its environmental responsibilities. The Company has invested substantial sums towards making its systems and processes paperless, and recycling facilities are available for all office waste.

Political contributions

Political contributions were nil during 2016 (2015 £nil).

Reappointment of Auditors

Pursuant to section 487 of the Companies Act 2006 the auditors will be deemed to have been reappointed and KPMG LLP will therefore continue in office.

Directors' Report *continued*

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The Directors are responsible for preparing the Strategic Report, and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare 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 company law the Directors 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 Company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

On behalf of the board

John Abramson

Company Secretary

Exchequer Court, 33 St. Mary Axe
London EC3A 8AG

17 May 2017

Profit and Loss Account : Technical Account

- General Business

For the year ended 31 December 2016

		2016	2015
	Note	£000	£000
Gross premiums written	6	221,495	234,354
Outward reinsurance premiums		(30,528)	(25,518)
Net premiums written		190,967	208,836
Change in the gross provision for unearned premiums	22	4,462	7,725
Change in the provision for unearned premiums, reinsurers' share	22	242	(2,627)
Earned premiums, net of reinsurance		195,671	213,934
Allocated investment return transferred from the non-technical account		25,744	17,900
Claims paid:			
Gross amount		(189,415)	(273,499)
Reinsurers' share		35,435	85,831
		(153,980)	(187,668)
Change in the provision for claims:			
Gross amount	22	10,479	62,325
Reinsurers' share	22	(5,093)	(59,268)
		5,386	3,057
Claims incurred, net of reinsurance		(148,594)	(184,611)
Net operating expenses	9	(92,796)	(96,363)
Change in claims equalisation provision	21,22	13,140	3,890
Balance on the technical account		(6,835)	(45,250)

The notes on pages 13 to 37 form part of these financial statements.

Profit and Loss Account : Non-Technical Account

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Balance on the general business technical account		(6,835)	(45,250)
Investment income	8	31,993	33,030
Investment expenses and charges	10	(6,249)	(15,130)
		25,744	17,900
Allocated investment return transferred to the general business technical account		(25,744)	(17,900)
Other income/(expense)	11	400	(308)
Loss on ordinary activities before tax	5,12	(6,435)	(45,558)
Tax (charge)/credit on loss on ordinary activities	14	(1,934)	7,158
Loss for the financial year		(8,369)	(38,400)

The notes on pages 13 to 37 form part of these financial statements.

Statement of Comprehensive Income/(Loss)

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Loss for the financial year		(8,369)	(38,400)
Unrealised gains/(losses) on investments	15	5,553	(10,322)
Tax (charge)/credit on unrealised gains/(losses) on investments	14	(172)	1,899
Currency translation (losses)/gains on foreign currency net investments		(1,026)	804
Tax charge on currency translation (losses)/gains	14	-	(147)
Total comprehensive loss		(4,014)	(46,166)

The notes on pages 13 to 37 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital	Share premium	Profit and loss account	Revaluation reserve	Total equity
	£000	£000	£000	£000	£000
At 1 January 2015	203,822	699	284,101	(1,568)	487,054
Loss for the financial year	-	-	(38,400)	-	(38,400)
<i>Other gains/(losses) recognised in Other Comprehensive Income/(Loss)</i>					
Unrealised losses on investments, net of tax	-	-	-	(8,423)	(8,423)
Currency translation differences on foreign currency net investments, net of tax	-	-	657	-	657
Closing equity at 31 December 2015	203,822	699	246,358	(9,991)	440,888
Loss for the financial year	-	-	(8,369)	-	(8,369)
<i>Other gains/(losses) recognised in Other Comprehensive Income/(Loss)</i>					
Unrealised gains on investments, net of tax	-	-	-	5,381	5,381
Currency translation differences on foreign currency net investments, net of tax	-	-	(1,026)	-	(1,026)
Closing equity at 31 December 2016	203,822	699	236,963	(4,610)	436,874

The profit and loss account includes £3,210,000 (2015 £10,751,000) net realised losses, net of tax which has been transferred from the revaluation reserve.

Balance Sheet

As at 31 December 2016

	Note	2016 £000	2015 £000
ASSETS			
Investments			
Investments in group undertakings	31	-	-
Other financial investments	15	1,079,565	1,100,881
Reinsurers' share of technical provisions			
Provision for unearned premiums	22	9,347	8,749
Claims outstanding	22	59,893	62,293
		69,240	71,042
Debtors			
Debtors arising out of insurance operations	16	38,319	29,256
Debtors arising out of reinsurance operations	17	7,665	7,806
Other debtors	18	9,706	659
		55,690	37,721
Other assets			
Deferred tax asset	19	23,282	24,392
Cash at bank and in hand		31,243	22,325
		54,525	46,717
Prepayments and accrued income			
Accrued interest		12,052	12,895
Deferred acquisition costs	22	13,962	13,362
		26,014	26,257
TOTAL ASSETS		1,285,034	1,282,618

The notes on pages 13 to 37 form part of these financial statements.

Balance Sheet *continued*

As at 31 December 2016

	Note	2016 £000	2015 £000
LIABILITIES			
Capital and reserves			
Called up share capital	20	203,822	203,822
Share premium account		699	699
Profit and loss account		236,963	246,358
Revaluation reserve		(4,610)	(9,991)
Shareholders' funds attributable to equity interests		436,874	440,888
Technical provisions			
Provision for unearned premiums	22	119,207	120,615
Claims outstanding	22	682,694	671,120
Claims equalisation provision	21,22	-	13,140
		801,901	804,875
Creditors			
Creditors arising out of insurance operations	24	3,490	3,938
Creditors arising out of reinsurance operations		15,369	9,929
Other creditors including taxation and social security	25	23,422	19,098
		42,281	32,965
Accruals and deferred income			
	26	3,978	3,890
TOTAL LIABILITIES		1,285,034	1,282,618

These financial statements were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by:

Mike Gent

Chief Financial Officer

17 May 2017

Travelers Insurance Company Limited

Registered in England No 1034343

Notes to the Financial Statements

1 Basis of preparation

Travelers Insurance Company Limited (“the Company”) is a limited liability company incorporated in England. Its registered office is at Exchequer Court, 33 St Mary Axe, London EC3A 8AG. The financial statements of the Company have been prepared in accordance with the provisions of section 396 of the Companies Act 2006, including applying the requirements set out in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies. The Company’s financial statements have been prepared in compliance with Financial Reporting Standard 102 - “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (“FRS 102”), as issued in September 2015, and Financial Reporting Standard 103 - “Insurance contracts” (“FRS 103”), as issued in March 2014.

The financial statements have been prepared on the historical cost basis, except for financial assets held for sale that are measured at fair value.

The financial statements of the Company were approved for issue by the Board of Directors on 17 May 2017. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements have been presented in Sterling, rounded to the nearest thousand pounds.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The Company’s ultimate parent undertaking, The Travelers Companies Inc. (“TRV”) includes the Company in its consolidated financial statements. The consolidated financial statements of TRV are prepared in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”), as promulgated by the Financial Accounting Standards Board (FASB), subject to the accounting-related rules and interpretations of the Securities and Exchange Commission (SEC). The TRV consolidated financial statements are available to the public and may be obtained from this Company’s registered address.

Consideration was given to the Application Guidance for FRS 100 in preparing these financial statements. The Company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash flow statement and related notes; and
- Key management personnel compensation.

The Company has considerable financial resources together with prudent investment guidelines, a high quality of invested assets, sound underwriting procedures, strong controls and risk mitigating processes (including, but not limited to, reinsurance) and the support of a financially strong parent company. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. The Directors are confident that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Notes to the Financial Statements *continued*

2 Significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. The most critical individual components of these financial statements that involve the highest degree of judgement or most significant assumptions and estimations are set out in note 3 below.

Basis of accounting for underwriting activities

All classes of business are accounted for on an annual basis.

Gross written premiums

Under the annual basis of accounting, written premiums, gross of commission payable to intermediaries, comprise the premiums on contracts entered into during a financial year, regardless of whether such amounts may relate in part to a later financial year, exclusive of taxes and duties levied on premiums.

Premiums written include estimates for pipeline premiums (premiums written but not reported to the business by the balance sheet date) and adjustments to premiums written in prior accounting periods.

Unearned premiums

The provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using the daily pro-rata method, adjusted if necessary to take into account the risk profile of the contract. The reinsurance share of unearned premium is calculated with reference to the risk profile of the individual reinsurance contracts.

Acquisition costs

Acquisition costs comprise the expenses of acquiring the insurance policies written during the financial year. Acquisition costs are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

Classification of insurance contracts

An insurance contract is one under which the Company has accepted significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. These contracts remain in force until all rights and obligations are extinguished or expire.

Claims incurred

Claims incurred include all claims and claim settlement expense payments made in respect of the financial year, and the movement in the provision for outstanding claims and settlement expenses, including the claims incurred but not reported provision, during the year.

Claims outstanding

The provision for outstanding claims represents the Company's estimate of the ultimate cost of settling claims that have occurred by the balance sheet date but not yet been finally settled.

In addition to the inherent uncertainty of having to forecast the ultimate costs of those claims that have occurred but not yet been advised to the Company as at the balance sheet date, there is also the considerable uncertainty regarding the eventual final costs of the claims that have been reported by the balance sheet date but which remain unsettled. As a consequence of these uncertainties the Company has to apply sophisticated estimation techniques to determine the appropriate level of claims provisions.

In overview, claims provisions are determined based upon prior claims experience, knowledge of market conditions and trends, and the terms and conditions of the underlying policies of insurance.

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Claims outstanding *continued*

A variety of different statistical techniques are used by the Company's in-house actuaries to determine the appropriate level of provision to carry. These methods include the following:

- Chain ladder development of paid and incurred claims, where claims to date for each accident year are extrapolated based upon the historical development patterns of earlier years;
- Estimates based upon the projection of claims' numbers and average costs;
- Expected loss ratios;
- Bornhuetter Ferguson method, which combines use of expected loss ratios, for the more recent and underdeveloped accident years, and the chain ladder projection of incurred claims data for earlier years.

All projections are carried out separately for each country, product, line of business and separately on a gross and ceded basis.

Large claims are identified and reserved for separately.

Where possible, the Company adopts multiple techniques to estimate the required level of provision. This assists in giving a greater understanding of the trends inherent in the data being projected and setting the range of possible outcomes. The most appropriate estimation technique is then selected taking into account the characteristics of the business class under consideration.

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

Establishing an appropriate level of claims provision is inherently uncertain. The degree of uncertainty will vary by product and line of business according to the characteristics of the insured risk. The level of uncertainty is also influenced by a number of factors such as claims cost inflation, judicial trends and legislative changes. As a consequence of this uncertainty the eventual cost of settling outstanding claims can vary substantially from the initial estimates.

Reinsurance ceded

Premiums payable in respect of reinsurance ceded are recognised in the period in which the underlying reinsurance contract incepts. Premiums are expensed over the period of the underlying reinsurance contract. A reinsurance asset is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the gross provision for losses reported under insurance contract liabilities. The amount recoverable is reduced where there is an event after the initial recognition that provides objective evidence that the Company may not receive all amounts due under the reinsurance contract. If there is such objective evidence the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the profit and loss account.

Equalisation provisions

Equalisation provisions have been established historically in accordance with the requirements of chapter 1.4 of the Prudential Source Book of Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility. Following the introduction of Solvency II with effect from 1 January 2016, the requirement to establish claims equalisation provision has been removed.

Unexpired risks

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums provision in relation to such policies after deduction of any acquisition costs deferred. Provision for unexpired risks is calculated after taking into account relevant investment income. Unexpired risk surpluses and deficits are aggregated where the business classes are managed together.

Financial assets and liabilities

In applying FRS 102, the Company has chosen to apply the recognition and measurement provisions of IAS39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Financial assets and liabilities *continued*

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the statement of profit and loss or other comprehensive income. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Debt and other fixed-income securities are designated as available for sale and initially recognised at fair value plus any transaction costs. After initial measurement these assets are subsequently measured at fair value.

Interest earned whilst holding available for sale financial assets is reported as interest income using the Effective Interest Rate (EIR) method. Fair value changes, including foreign exchange gains or losses, are recognised in other comprehensive income and accumulated in the revaluation reserve.

If an available-for-sale investment is sold or impaired, the cumulative gain or loss accumulated in the revaluation reserve is reclassified to profit or loss. Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the revaluation reserve to profit or loss. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to the application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss and otherwise it is reversed through other comprehensive income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Deposits with credit institutions, debtors and accrued interest are classified as loans and receivables.

Recognition

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are derecognised if the Company's contractual rights to the cash flows from the financial instruments expire or the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Identification and measurement of impairment

The Company conducts a periodic review to identify invested assets having other than temporary impairments. Some of the factors considered in identifying other than temporary impairments include: (1) whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value; (2) the likelihood of the recoveries in full of the principal and interest (i.e., whether there is a credit loss); (3) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

At each reporting date the Company assesses whether there is objective evidence that financial assets that are not invested assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after initial recognition of an asset, and that the loss event has an impact of 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 of any significant financial difficulty of the issuer, or significant changes in the environment in which the issuer operates.

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

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2 Significant accounting policies *continued*

Investment return

Interest income is recognised as an accruals basis in the income statement. Realised gains or losses represent the difference between net sales proceeds and purchase price.

Investment income, realised gains and losses and investment expenses and charges are allocated to the general business technical account in full.

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 during the year 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. Movements in unrealised investment gains and losses are reported in the statement of other comprehensive income.

Functional currencies

The functional currency of the Company is Sterling, with the exception of the branch operations in Ireland, Holland, France and Germany for which the functional currency is Euro.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from such transactions and from the retranslation of balance sheet items at the year end exchange rates are recognised in the non-technical account.

For the branches that have a functional currency different to the Sterling presentational currency, the results and financial position are translated into Sterling as follows: Balance sheet items are translated at the closing rate as at the balance sheet date. Income statement items are translated at average monthly exchange rates. All resulting exchange differences are recognised as in the statement of comprehensive income.

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

3 Use of critical judgements, assumptions and estimates

The preparation of financial statements requires the use of significant judgements, assumptions and estimates. The Directors consider the accounting policies for determining the valuation of insurance liabilities, the valuation of investments and the valuation of deferred tax assets as being the most critical to an understanding of the Company's result and financial position.

The most critical estimate included within the Company's balance sheet is that in respect of losses incurred but not reported. The total gross estimate within the Company's balance sheet as at 31 December 2016 was £377.4m (2015 £339.4m). Estimates for losses incurred but not reported are continually being re-evaluated based on the Company's claims experience, developments in the broader industry and expectations of changes in future years. There is though the risk that material adverse changes to this estimate in future years may have a critical impact on the Company's reported performance and financial position.

Following the Lord Chancellor's announcement of the new discount rate of minus 0.75% to be used in valuing lump sum bodily injury claims, the Company has revalued its exposure to such claims on the new basis. This has resulted in an increase in gross reserves of £58.8m and net reserves of £50.0m.

The Company classes its investments as available for sale and carries those investments at fair value with unrealised gains and losses being reported through other comprehensive income. Fair value for securities quoted in active markets is the bid price exclusive of transaction costs. For assets where no active market exists, fair value is determined by referring to recent transactions. Fair value changes are recognised immediately through equity.

Significant assumptions are required in valuing the Company's deferred tax asset. The determination and finalisation of agreed tax assets may not occur until several years after the balance sheet date and consequently the tax asset receivable may differ from those presently recorded in the financial statements. To the extent that the taxable losses carried forward exceed taxable temporary timing differences, it is necessary to estimate future taxable profits to determine whether recognition of a deferred tax asset is appropriate. The deferred tax asset in respect of taxable losses carried forward was £23.3m at 31 December 2016 (2015 £24.4m).

4 Risk and capital management

This section identifies the key risks faced by the Company and the steps taken to manage those risks. The Company's appetite for accepting and managing the varying classes of risk it faces is defined by the Company's Board of Directors. The Board of Directors has established a comprehensive risk management framework that includes a full range of risk policies and risk procedures which include risk identification, risk measurement, risk mitigation, risk reporting and stress and scenario tests to ensure that the risk exposures faced by the Company are appropriately managed.

The principal sources of risk faced by the Company can be classified in the following categories:

- Insurance;
- Credit;
- Market;
- Liquidity;
- Capital management.

Insurance risk

Management of insurance risk

The Underwriting Committee oversees the management of underwriting risk and in particular ensures adherence to the Board determined risk appetite in terms of product, line of business, geographical exposure, line sizes, and rating adequacy. The underwriting strategy includes limits on the Company's total exposure to specific risks together with limits on geographical and industry exposures. The aim is to ensure a well diversified book is maintained with no over exposure in any one industry, line of business or geographical region. The Underwriting Committee meets quarterly and will address new product ideas, emerging claims issues, product and line of business profitability issues, as well as monitoring the overall portfolio performance.

Contracts can contain a number of features which help to manage the underwriting risk such as the use of deductibles, limits and aggregate caps. The Company uses sophisticated modelling tools to monitor and manage the concentration of exposure from weather events and to ensure they remain within the Board's risk appetite. Authority limits are accorded to individual underwriters based on their experience. The Company also makes use of reinsurance to mitigate the risk of incurring significant losses linked to any one risk or any one event, principally risk excess of loss and property catastrophe reinsurance. Where an individual exposure is in excess of Company's appetite additional facultative reinsurance is also purchased.

On a monthly basis performance reviews are conducted to monitor premium production, business mix, rating adequacy and claims activity relative to targets set out in the Company's annual business plan. On an annual basis each portfolio is subjected to a detailed review to identify actions to be taken to improve performance where necessary and opportunities to further develop the portfolio.

The Finance Committee oversees the management of reserving risk. The Company's in house actuaries perform a reserving analysis on a quarterly basis liaising closely with underwriters and claims handlers. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development patterns are all instrumental in mitigating reserving risk. The aim of the quarterly reserving analysis is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections.

The Finance Committee performs a comprehensive review of the projections, both gross and net of reinsurance and following this review makes recommendations to the Company's Board of Directors of the appropriate claims provisions to be established. In arriving at the level of claims provisions carried a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged.

4 Risk and capital management *continued*

Insurance risk continued

Concentration of insurance risk

The following table provides an analysis of the geographical breakdown of its written premiums by class of business based on the location of the underlying risk:

	2016							Total £000
	Credit and Suretyship £000	Fire and other damage to property £000	Marine £000	Motor £000	Third party liability £000	Miscellaneous £000		
United Kingdom	1,175	69,427	4,699	9,958	98,593	789	184,641	
Ireland	-	12,449	-	6,030	13,629	-	32,108	
Other	1	1,732	-	26	2,987	-	4,746	
Total	1,176	83,608	4,699	16,014	115,209	789	221,495	

	2015							Total £000
	Credit and Suretyship £000	Fire and other damage to property £000	Marine £000	Motor £000	Third party liability £000	Miscellaneous £000		
United Kingdom	80	74,454	7,386	14,350	111,015	734	208,019	
Ireland	-	9,925	-	4,565	10,856	-	25,346	
Other	-	344	17	-	628	-	989	
Total	80	84,723	7,403	18,915	122,499	734	234,354	

Net loss ratio sensitivity

The following table shows the impact on the Company's post tax result and financial position were the net loss ratio to increase by 1%. This is on the basis that an increase in gross claims incurred would have a similar impact on the reinsurance recoverability and the claims handling costs:

	2016 £000	2015 £000
Total decrease on result after tax and net assets	1,614	1,746

Profit and loss sensitivity to expenses

The following table shows the impact were net operating expenses to increase by 5%:

	2016 £000	2015 £000
Total decrease on result after tax and net assets	3,828	3,932

4 Risk and capital management *continued*

Credit risk

Credit risk is the risk of financial loss due to counterparties failing to meet some or all of their obligations. The Company's key areas of exposure to credit risk include:

- counterparty exposures with respect to cash deposits and investments;
- reinsurers' share of technical provisions;
- amounts due from brokers and policyholders.

The Finance Committee oversees the management of credit risk. The Committee is responsible for ensuring that the Board approved credit risk appetite is not exceeded. Limits are placed on exposures to individual bank and investment counterparties and groups of counterparties based on the likelihood of default having regard to the credit rating of the underlying counterparty.

The Company's strategy is to purchase reinsurance only from reinsurers who meet the Company's security standards. Reinsurance counterparties are subject to a rigorous internal assessment process by reviewing credit ratings provided by rating agencies and other publically available financial information. Due to the nature of the reinsurance market and the restricted range of reinsurers with acceptable credit ratings the Company is exposed to credit and concentration risk with individual reinsurers and groups of reinsurers.

The Company's exposure to brokers and policyholders is monitored as part of its regular credit control processes. The payment histories of brokers and policyholders is monitored on a monthly basis.

An analysis of the Company's exposure to counterparty credit risk based on Standard and Poor's or equivalent ratings, is set out below:

	2016					Total £000
	AAA £000	AA £000	A £000	BBB £000	Not rated £000	
Investments	319,429	591,524	151,172	17,440	-	1,079,565
Reinsurance claims outstanding	22,372	18,214	18,800	-	507	59,893
Reinsurance debtors	1,400	3,730	2,363	-	172	7,665
Insurance debtors	-	-	-	-	38,319	38,319
Other debtors	-	-	-	-	9,706	9,706
Cash at bank and in hand	-	-	28,010	3,233	-	31,243
Total by rating	343,201	613,468	200,345	20,673	48,704	1,226,391
Percentage by rating	28.0%	50.0%	16.3%	1.7%	4.0%	100%

	2015					Total £000
	AAA £000	AA £000	A £000	BBB £000	Not rated £000	
Investments	316,319	613,991	149,913	20,658	-	1,100,881
Reinsurance claims outstanding	21,861	20,140	19,648	-	644	62,293
Reinsurance debtors	1,561	3,293	2,685	-	267	7,806
Insurance debtors	-	-	-	-	29,256	29,256
Other debtors	-	-	-	-	659	659
Cash at bank and in hand	-	56	12,811	9,458	-	22,325
Total by rating	339,741	637,480	185,057	30,116	30,826	1,223,220
Percentage by rating	27.8%	52.1%	15.1%	2.5%	2.5%	100%

The largest counterparty exposure within the AAA rating at both 31 December 2016 and 2015 is Kreditanstalt fuer Wiederaufbau. Within the AA rating, the largest counterparty exposure was the UK government as at 31 December 2016 and 2015. With the exception of AAA and AA government debt securities the largest credit exposure does not exceed 5% of the Company's total financial assets. The Company has no holdings in Government bonds of Greece, Italy, Spain or Portugal nor in any corporate bonds for companies based in those countries.

4 Risk and capital management *continued*

Credit risk *continued*

The largest reinsurance counterparty exposure within the AAA rating at both 31 December 2016 and 2015 is St Paul Fire and Marine Insurance Company. Within the AA rating, the largest reinsurance counterparty is Munich Reinsurance Company as at 31 December 2016 (2015 Swiss Re Europe S.A).

As at 31 December 2016 and 2015 the Company held no material financial assets that were past due or impaired beyond their reported fair values. For the current and prior periods the Company did not experience any defaults on investments.

As at 31 December 2016 the Company had pledged as collateral to support the capital requirements of affiliated subsidiary operations £79m (2015 £100m) of government securities.

An analysis of the carrying amounts past due or impaired financial assets is presented in the table below:

	2016						Total £000
	Within terms £000	0-1 month £000	2-3 months £000	Over 3 months £000	Impairments £000		
Investments	1,079,565	-	-	-	-	1,079,565	
Reinsurance claims outstanding	60,977	-	-	-	(1,084)	59,893	
Reinsurance debtors	7,430	-	235	-	-	7,665	
Insurance debtors	35,346	1,454	1,645	470	(596)	38,319	
Other debtors	9,706	-	-	-	-	9,706	
Cash at bank and in hand	31,243	-	-	-	-	31,243	
Total	1,224,267	1,454	1,880	470	(1,680)	1,226,391	

	2015						Total £000
	Within terms £000	0-1 month £000	2-3 months £000	Over 3 months £000	Impairments £000		
Investments	1,100,881	-	-	-	-	1,100,881	
Reinsurance claims outstanding	63,257	-	-	-	(964)	62,293	
Reinsurance debtors	7,383	100	323	-	-	7,806	
Insurance debtors	28,058	969	201	557	(529)	29,256	
Other debtors	659	-	-	-	-	659	
Cash at bank and in hand	22,325	-	-	-	-	22,325	
Total	1,222,563	1,069	524	557	(1,493)	1,223,220	

The Company's maximum exposure to credit risk is represented by the carrying values of financial assets included in the balance sheet. The Company does not use credit derivatives or other products to mitigate the maximum exposure to credit risk.

Market risk

The Finance Committee oversees the management of market risk. The Company is exposed to the risk of potential losses from adverse movements in market prices, in particular those of interest rates and foreign currency exchange rates. These exposures are controlled by the setting of limits and by asset-liability matching in terms of both duration and foreign currency composition in line with the Company's risk appetite.

Interest rate risk

The Company's investment portfolio is comprised exclusively of high quality fixed income government and corporate bonds. The fair value of the investment portfolio is inversely correlated to movement in market interest rates. If market interest rates rise, the fair value of the Company's fixed income investments will fall. The investments typically have relatively short durations and the portfolio is managed to minimise interest rate risk. If market interest rates had risen by 100 basis points as at the balance sheet date the shareholder's equity would have fallen by £21m (2015 £24m) after tax.

Insurance contract liabilities are not directly sensitive to interest rates as they are undiscounted and non-interest bearing.

4 Risk and capital management *continued*

Currency risk

The Company operates principally in the UK and Ireland. It also has currency exposures to its run off operations in Holland, France and Germany and to intercompany transactions with its parent company in the United States. Accordingly its net assets are subject to foreign exchange movements between Sterling and the Euro and US dollar. The Company manages these exposures by monitoring them regularly and ensuring its Euro and US dollar assets are broadly matched by Euro and US dollar liabilities respectively, with any surplus net assets held in Sterling.

The Company's shareholder's equity analysed by currency is:

	Pound Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Net assets 31 December 2016	441,357	(1,674)	(2,621)	(188)	436,874
Net assets 31 December 2015	452,128	(2,142)	(8,949)	(149)	440,888

The impact of a 10% change in Sterling against Euro and US dollar at the reporting date would have the following impact on shareholder's equity:

	Increase Sterling/Euro £000	Decrease Sterling/Euro £000	Increase Sterling/USD £000	Decrease Sterling/USD £000
Increase/(decrease) in net assets 31 December 2016	152	(186)	238	(291)
Increase/(decrease) in net assets 31 December 2015	195	(238)	814	(994)

Liquidity risk

Liquidity risk is the risk that the Company may be unable to settle its obligations as they fall due as a result of insufficient assets being available in a form that can be readily convertible into cash.

The Finance Committee oversees the management of liquidity risk. The Company's financial assets are held in highly liquid assets that can be readily convertible into cash in a prompt fashion and with minimal expense. The Company has no external debt and has access to the financial support of its financially strong parent company. Cash flow forecasts are prepared and reviewed on a regular basis.

The following table summarises the maturity profile of the Company's insurance liabilities and creditors analysed based on the estimated remaining duration until settlement:

	2016			
	Total £000	0-1 year £000	2-5 years £000	More than 5 years £000
Technical provisions	801,901	354,863	355,067	91,971
Creditors	42,281	42,281	-	-
Total	844,182	397,144	355,067	91,971

	2015			
	Total £000	0-1 year £000	2-5 years £000	More than 5 years £000
Technical provisions	804,875	333,677	359,543	111,655
Creditors	32,965	32,965	-	-
Total	837,840	366,642	359,543	111,655

4 Risk and capital management *continued*

Capital management

The Company's primary objectives when managing its capital position are as follows:

- to protect its ability to continue as a going concern and thus to protect its policyholders;
- to enable an appropriate return to the group's shareholders by allocating appropriate amounts of capital to its products commensurate with the risks taken;
- to comply with its regulatory capital requirements;
- to maintain a financial strength rating of A.M. Best A (excellent).

The Company's capital wholly comprises share capital, retained earnings and revaluation reserves. For internal modelling purposes the Company treats its available capital as being its shareholder's equity, less any deferred tax assets, less capital pledged to support the capital needs of affiliates. As at 31 December available capital on this basis comprised £335m (2015 £327m). Following the Lord Chancellor's announcement in respect of the bodily injury discount rate, the Company has strengthened its capital position by reducing by £50m the investments that it had previously pledged to Lloyd's to support the capital needs of an affiliate company.

The Company is subject to capital requirements imposed by both its regulator and rating agencies. The insurance company capital regime in the UK moved to a Solvency II basis with effect from 1 January 2016. Under this regime the Company's capital requirement will be determined using the standard formula. As management sets the target economic capital for the Company the regulatory and rating agency capital requirements are treated as minimum requirements. In setting its target economic capital and determining capital to allocate to different products the Company employs its internal capital model. At 31 December 2016 the Company's solvency capital requirement was £313m, and adjusting for the assets pledged to Lloyd's, its coverage ratio was 106%. Following the reduction by £50m of the assets previously pledged to Lloyd's, in April 2017, the coverage ratio increased to 125%.

During the year the Company was in full compliance with the capital requirements imposed by its prudential regulator, the Prudential Regulation Authority. There were no changes in the Company's approach to capital risk management during the current or prior year. The Company continues to be in full compliance with its regulatory capital requirements under the Solvency II regime.

The Company's financial strength rating with A.M. Best remains at A (excellent).

Notes to the Financial Statements *continued*

5 Continuing and run-off operations

The Company manages the business by separating out the operations in run-off.

In December 2001, the Company ceased writing business in its branch operations in the Netherlands, France and Germany. The Company also ceased writing medical malpractice business in both the United Kingdom and Ireland, and construction business in the United Kingdom. These operations are consequently now in run-off. In addition, the Company ceased to write personal motor and household policies in the United Kingdom on 1 April 1998. In September 2011 the Company ceased writing personal lines business in Ireland. The results of all of the above operations have been disclosed as run-off operations.

The breakdown of the general business technical account between run-off and continuing operations is as follows:

	2016		2015	
	Continuing operations £000	Run-off operations £000	Continuing operations £000	Run-off operations £000
Net premiums written	190,967	-	208,877	(41)
Net premiums earned	195,671	-	213,955	(21)
Allocated investment return	25,293	451	17,302	598
	220,964	451	231,257	577
Claims paid - gross amount	(186,988)	(2,427)	(264,595)	(8,904)
Claims paid - reinsurers' amount	35,560	(125)	85,814	17
Change in provisions for claims - gross amount	9,394	1,085	54,970	7,355
Change in provisions for claims - reinsurers' amount	(7,276)	2,183	(55,896)	(3,372)
Claims incurred, net of reinsurance	(149,310)	716	(179,707)	(4,904)
Net operating expenses	(92,375)	(421)	(95,984)	(379)
Claims equalisation reserve	13,140	-	3,890	-
Balance on the technical account	(7,581)	746	(40,544)	(4,706)
Investment income	31,540	453	32,339	691
Investment expenses and charges	(6,247)	(2)	(15,037)	(93)
	25,293	451	17,302	598
Allocated investment return transferred to the general business technical account	(25,293)	(451)	(17,302)	(598)
Other income/(charges)	594	(194)	(513)	205
Loss on ordinary activities before tax	(6,987)	552	(41,057)	(4,501)

Notes to the Financial Statements *continued*

6 Analysis of underwriting result

(a) Analysis of gross premiums, profit before taxation and net assets

	2016			
	Gross premiums written £000	Gross premiums earned £000	Loss before tax £000	Net assets £000
<i>By geographical segment</i>				
United Kingdom	189,364	195,774	(3,708)	431,793
Republic of Ireland	32,131	30,183	(1,569)	1,942
Overseas branches in run-off	-	-	(1,158)	3,139
Total	221,495	225,957	(6,435)	436,874

	2015			
	Gross premiums written £000	Gross premiums earned £000	Loss before tax £000	Net assets £000
<i>By geographical segment</i>				
United Kingdom	209,212	218,342	(34,900)	433,080
Republic of Ireland	25,142	23,737	(3,865)	3,511
Overseas branches in run-off	-	-	(6,793)	4,297
Total	234,354	242,079	(45,558)	440,888

The Directors consider that the Company is involved in only one type of business, that being general insurance business.

(b) Analysis of gross direct written premiums

	2016 £000	2015 £000
Resulting from contracts concluded by the Company:		
In the EU member state of its head office	189,364	209,212
In other EU member states	32,131	25,142
Total	221,495	234,354

Notes to the Financial Statements *continued***6 (c) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance**

	2016				
	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Motor	16,014	16,889	(34,334)	(5,968)	(446)
Fire and other damage to property	83,608	83,305	(39,372)	(40,596)	(2,987)
Third party liability	115,209	117,869	(100,755)	(43,742)	6,774
Credit and Suretyship	1,176	548	(152)	(582)	308
Marine	4,699	6,269	(3,049)	(2,979)	(2,627)
Miscellaneous	789	1,077	(1,274)	(340)	445
	221,495	225,957	(178,936)	(94,207)	1,467

	2015				
	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Motor	18,915	19,205	(28,204)	(7,393)	(1,347)
Fire and other damage to property	84,723	88,429	(96,751)	(42,937)	12,829
Third party liability	122,499	125,232	(83,650)	(44,268)	(10,810)
Credit and Suretyship	80	118	135	(15)	(27)
Marine	7,403	8,293	(2,425)	(2,291)	(1,115)
Miscellaneous	734	802	(279)	(73)	(498)
	234,354	242,079	(211,174)	(96,977)	(968)

Commission payable in respect of direct insurance amounted to £29,761,000 (2015 £29,031,000).

The 'reinsurance balance' represents the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions, including reinsurance commissions.

Notes to the Financial Statements *continued*

7 Prior years' claims provisions

(Under)/over provisions for claims held at the beginning of the financial year compared to payments made during and provisions held at the end of the financial year in respect of prior years' claims are as follows:

	2016	2015
	£000	£000
Motor	(17,480)	(8,089)
Fire and other damage to property	12,871	8,495
General liability	(15,534)	(1,010)
Marine	(636)	1,296
Miscellaneous	40	20
	(20,739)	712

The movement in prior year claims provision is after reflecting the impact of the announcement from the Lord Chancellor in February 2017 of the change in the discount rate used for bodily injury claims ("the Ogden rate"), from 2.5% to minus 0.75%. Excluding the impact of the adjustment for the Ogden rate, movement in prior year claims would have been a release of £25.5m.

8 Investment income

	2016	2015
	£000	£000
Income from investments	30,757	32,052
Gains on the realisation of investments	1,236	978
	31,993	33,030

9 Net operating expenses

	2016	2015
	£000	£000
Acquisition costs	29,761	33,210
Change in gross deferred acquisition costs	(53)	437
	29,708	33,647
Administrative expenses	64,499	63,330
Gross operating expenses	94,207	96,977
Reinsurance commissions and profit participation	(1,263)	(829)
Change in deferred reinsurance commission	(148)	215
	92,796	96,363

Notes to the Financial Statements *continued***10 Investment expenses and charges**

	2016	2015
	£000	£000
Investment management expenses	1,001	976
Losses on the realisation of investments	5,248	14,154
	6,249	15,130

11 Other income

	2016	2015
	£000	£000
Foreign exchange loss	(1,399)	(1,450)
Pool Re distribution	629	-
Fee income: Funds at Lloyd's	797	1,000
Other income	373	142
	400	(308)

12 Loss on ordinary activities before tax

	2016	2015
	£000	£000
<i>Loss on ordinary activities before tax is stated after crediting</i>		
Income from fixed income investments	30,733	32,001
<i>after charging</i>		
Auditors' remuneration:		
Audit of these financial statements	175	174
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	4	3
Audit-related assurance services	85	59
Taxation compliance services	8	17

Notes to the Financial Statements *continued***13 Remuneration of directors**

	2016	2015
	£000	£000
Directors' fees	116	116
Directors' emoluments	648	905
Compensation for loss of office	-	301
Company contributions to money purchase schemes	15	53

The salary and bonus of the highest paid director for the year was £391,167 (2015 £290,408) and the pension contribution to a money purchase scheme was £7,650 (2015 £13,574). Share options were exercised in 2016 (were exercised in 2015).

	Number of directors	
	2016	2015
Retirement benefits are accruing to the following number of directors:		
Money purchase schemes	3	4
Defined benefit schemes	-	-
The number of directors who exercised share options was	3	3
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	-	-

14 Taxation**Analysis of total tax charge for the year****(a) Tax included in the non-technical account**

	2016	2015
	£000	£000
United Kingdom Corporation Tax		
United Kingdom Corporation Tax at 20.0% (2015 20.25%)	-	(994)
Adjustment in respect of prior periods	994	-
Total current tax charge/(credit)	994	(994)
Deferred tax credit	(262)	(7,479)
Changes in deferred tax rate	1,202	1,315
Tax charge/(credit) on loss on ordinary activities	1,934	(7,158)

Notes to the Financial Statements *continued***14 Taxation** *continued***(b) Tax included in Other Comprehensive Income**

	2016 £000	2015 £000
Deferred tax:		
Charge on currency translation (losses)/gains	-	147
Charge/(credit) on unrealised gains/(losses) on investments	172	(1,899)
	172	(1,752)

(c) Factors affecting the total tax charge for the year

The tax charge for the year is higher than (2015 credit - lower than) the standard rate of corporation tax in the UK:

	2016 £000	2015 £000
Loss on ordinary activities before tax	(6,435)	(45,558)
Tax using the corporation tax rate of 20.0% (2015 20.25%)	(1,287)	(9,226)
Effect of tax rate change	1,202	2,068
Prior year adjustments	713	-
Losses group relieved for no reimbursement	631	-
Non-taxable income	(126)	-
Transition adjustment re loan relationships	805	-
Other differences	(4)	-
Total tax charge/(credit)	1,934	(7,158)

As at 31 December 2016 the Company has tax losses carried forward of £133,604,000 (2015 £132,006,000).

The 2015 budget on 8 July 2015 announced that the UK corporation tax rate will reduce to 18% by 2020. There will be a reduction in the rate from 20% to 19%, effective from 1 April 2017 and a further reduction to 18%, effective 1 April 2020. These changes were enacted on 25 November 2015.

The 2016 Budget on 16 March 2016 announced that the UK corporation tax rate will now reduce to 17%, effective 1 April 2020. These changes were enacted on 15 September 2016 and will reduce the company's future current tax charge accordingly.

15 Investments**(a) Fair value**

	Fair Value 2016 £000	Fair Value 2015 £000	Cost 2016 £000	Cost 2015 £000
Debt and other fixed income securities	1,079,565	1,100,881	1,084,068	1,110,937
Included in debt and other fixed income securities:				
UK fixed income securities	413,608	501,709	417,285	506,262
Overseas fixed income securities	665,957	599,172	666,783	604,675
	1,079,565	1,100,881	1,084,068	1,110,937

Notes to the Financial Statements *continued*

15 Investments *continued*

(b) Movement in the year

	2016 £000	2015 £000
Investments brought forward	1,100,881	1,163,396
Purchases	141,155	327,434
Fair value adjustments	5,553	(10,322)
Disposals/maturities	(186,192)	(372,650)
Currency translation movements	18,168	(6,977)
Investments carried forward	1,079,565	1,100,881

(c) Fair value measures of investments

The Company's estimates of fair value for investments are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The level in the fair value hierarchy within which the fair value measurement is reported is based on the lowest level input that is significant to the measurement of its entirety. The three levels of the hierarchy are as follows:

- Level 1 - The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access the measurement date;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly;
- Level 3 - Inputs are unobservable (ie for which market data is unavailable) for the asset or liability and therefore, prices are determined using a valuation technique.

The Company utilized a pricing service to estimate the fair value of its investments at both 31 December 2016 and 31 December 2015.

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated, willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Company uses the unadjusted quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from third party, nationally recognized pricing services. When quoted market prices are unavailable, the Company utilizes these pricing services to determine an estimate of fair value based on recent transactions for identical assets. The fair value estimates provided from these pricing services are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third-party market participant would be willing to pay in an arm's length transaction.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets as at 31 December 2016	-	1,079,565	-	1,079,565
Financial assets as at 31 December 2015	-	1,100,881	-	1,100,881

Notes to the Financial Statements *continued***16 Debtors arising out of insurance operations**

	2016	2015
	£000	£000
Amounts owed by intermediaries	38,319	29,256

There is no significant concentration of credit risk with respect to debtors arising out of insurance operations. The carrying amounts disclosed are reasonable approximations of the fair values at the reporting date.

17 Debtors arising out of reinsurance operations

	2016	2015
	£000	£000
Amounts owed by reinsurers	7,665	7,806

18 Other debtors

	2016	2015
	£000	£000
Amounts owed by group undertakings	8,179	17
Tax recoverable	1,376	270
Other debtors	151	372
	9,706	659

19 Deferred tax asset

(a) *The amounts provided for deferred taxation and the amounts unprovided are set out below:*

	2016		2015	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Tax losses carried forward	23,380	-	24,295	-
Expense provision	74	-	97	-
Unrealised losses in investments	965	-	-	-
Timing differences on realised losses on investments	(1,137)	-	-	-
	23,282	-	24,392	-

(b) *Movement in provided deferred tax*

	2016	2015
	£000	£000
Deferred tax asset brought forward	24,392	16,476
Tax losses carried forward	279	9,232
Unrealised losses in investments	965	-
Timing differences on realised losses in investments	(1,137)	-
Change in expense provision	(23)	-
Foreign exchange revaluation of opening provision	8	(1)
Effect of rate change on deferred tax asset brought forward	(1,202)	(1,315)
Deferred tax asset carried forward	23,282	24,392

The tax losses carried forward have no time limit.

The net reversal of deferred tax expected to occur next year is £1,251,000, relating to the release of tax losses carried forward of £6,500,000.

Notes to the Financial Statements *continued***20 Called up share capital**

	2016	2015
	£000	£000
<i>Allotted, called up and fully paid</i>		
203,822,115 (2015 203,822,115) ordinary shares of £1 each	203,822	203,822

21 Equalisation Provisions

Equalisation provisions were established in accordance with the requirements of Chapter 1.4 of the Prudential Source Book of Insurers. These provisions, which were in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, were required by Companies Act 2006 to be included within technical provisions in the balance sheet, notwithstanding that they did not represent liabilities at the balance sheet date. However, the Financial Reporting Standard 103 - "Insurance contracts", states that no liability shall be recognised which relates to future possible claims unless otherwise required by the regulatory framework. Solvency II, the new regulatory regime which commenced on 1 January 2016, does not permit any provisions for future claims and the equalisation provision was released during the year. This had the effect of increasing shareholders funds by £13,140,000 (2015 increase of £3,890,000) before tax. The movement in the equalisation provisions during the year resulted in an decrease in the general business technical account loss and decrease in the loss before taxation of £13,140,000 (2015 decrease in loss £3,890,000).

22 Technical provisions and deferred acquisition costs**(a) Unearned premium reserve**

	2016		2015	
	£000	£000	£000	£000
<i>Gross</i>				
At the start of the year		120,615		128,694
Premiums written	221,495		234,354	
Premiums earned	(225,957)		(242,079)	
Changes in unearned premium provision		(4,462)		(7,725)
Currency translation differences		3,054		(354)
At the end of the year		119,207		120,615
<i>Reinsurance amount</i>				
At the start of the year		(8,749)		(11,375)
Premiums written	(30,528)		(25,518)	
Premiums earned	30,286		28,145	
Changes in unearned premium provision		(242)		2,627
Currency translation differences		(356)		(1)
At the end of the year		(9,347)		(8,749)

Notes to the Financial Statements *continued*22 Technical provisions and deferred acquisition costs *continued**(b) Claims outstanding*

	2016	2015
	£000	£000
Gross		
At the start of the year	671,120	741,003
Claims paid	(189,415)	(273,499)
Movement in claims incurred but not reported	(31,317)	11,446
Movement in claims outstanding	209,211	200,586
Movement in ULAE	1,042	(858)
Currency translation differences	22,053	(7,558)
At the end of the year	682,694	671,120
Reinsurance amount		
At the start of the year	(62,293)	(122,351)
Claims paid	35,435	85,831
Movement in claims incurred but not reported	8,566	44,529
Movement in claims outstanding	(38,908)	(71,092)
Currency translation differences	(2,693)	790
At the end of the year	(59,893)	(62,293)

(c) Deferred acquisition costs

	2016	2015
	£000	£000
Gross		
At the start of the year	(13,362)	(13,839)
Movement in provision	(53)	437
Currency translation differences	(547)	40
At the end of the year	(13,962)	(13,362)
Reinsurance amount		
At the start of the year	316	99
Movement in provision	(148)	215
Currency translation differences	80	2
At the end of the year	248	316

(d) Claims equalisation provision

	2016	2015
	£000	£000
At the start of the year	13,140	17,030
Movement in provision	(13,140)	(3,890)
At the end of the year	-	(13,140)

Notes to the Financial Statements *continued***24 Creditors arising out of direct insurance operations**

	2016	2015
	£000	£000
Amounts owed to intermediaries	3,369	3,776
Amounts owed to policyholders	121	162
	3,490	3,938

25 Other creditors including taxation and social security

	2016	2015
	£000	£000
Insurance premium taxes	6,209	4,137
Amounts owed to group undertakings	17,152	14,898
Other creditors	61	63
	23,422	19,098

26 Accruals and deferred income

	2016	2015
	£000	£000
Reinsurers' share of deferred acquisition costs	248	316
Accrued expenses	3,730	3,574
	3,978	3,890

27 Related party transactions

As the Company is a wholly owned subsidiary of the Travelers Companies, Inc. it has taken advantage of the exemptions in FRS 102.33.1A not to disclose transactions or balances with other group entities which qualify as related parties.

Other than directors remuneration, which is disclosed in note 13, there are no other related party transactions that require disclosure.

28 Commitments and Contingent Liabilities

In the normal course of business letters of credit to the value of £60,812 (2015 £50,892) have been issued to fiscal authorities against insurance tax liabilities. These are secured against bank deposits.

The Company has also guaranteed the lease commitments of an affiliated company relating to the two main operating premises in the United Kingdom. For the first premises the commitments are £43,490 for 2017, £484,983 for 2018 and £738,206 per annum thereafter, expiring in 2027. For the second premises the lease commitments are £1,855,600 per annum, expiring in 2018.

Acting as a third party depositor under a trust deed executed in 2013, the Company has deposited £79.0m (2015 £100.0m) in bonds with Lloyd's as security for the underwriting activities of its affiliate companies Aprilgrange Limited and F&G UK Underwriters Limited. The fees attaching to this security and earned by the Company were £0.8m (2015 £1.0m). Following the Lord Chancellor's announcement in respect of the bodily injury discount rate, the Company has strengthened its capital position by reducing by £50m of the investments that were previously pledged to Lloyd's.

Travelers has a pension scheme in the UK providing benefits based on final pensionable pay. This scheme was frozen with effect from 1 April 2003. Travelers Management Limited currently bears responsibility for meeting any funding requirements of this scheme. In the event that Travelers Management Limited was not able to fulfil the obligations, responsibilities would fall to the Company. The updated valuation for FRS 102 as at 31 December 2016 identified a deficit of £7,259,000 (2015 - deficit of £973,000).

Notes to the Financial Statements *continued*

29 Immediate and ultimate parent company

The immediate and ultimate parent undertaking of the Company is The Travelers Companies, Inc., a company registered in the United States. Copies of The Travelers Companies, Inc. accounts can be obtained from the Company's registered office, Exchequer Court, 33 St. Mary Axe, London EC3A 8AG or the Company's website: www.travelers.co.uk.

30 Affiliate company guarantee

All obligations and liabilities of the Company arising from the Company's past or future underwriting activities are guaranteed unconditionally by St. Paul Fire & Marine Insurance Company, one of the principal insurance subsidiaries of The Travelers Companies, Inc. The guarantee is terminable by the guarantor on twelve months' notice, but termination would, by the terms of the guarantee, be of no effect in respect of business underwritten prior to the date of termination.

31 Investments in Group Undertakings

Travelers Professional Risks Limited is a wholly owned subsidiary of the Company.

Under the Companies Act 2006 Section 401, for accounting periods beginning or after 1st January 2005 an exemption from preparing consolidated accounts is available, subject to certain conditions. Following an assessment of these conditions it is considered appropriate for the Company to take advantage of the exemption from preparing consolidated accounts and therefore these financial statements are for the Company only. Travelers Professional Risks Limited has therefore not been consolidated in these accounts. Travelers Professional Risks Limited became dormant in 2016 and had net assets at 31 December 2016 of £434,538 (2015 £434,538).

Independent Auditor's Report to the Members of Travelers Insurance Company Limited

We have audited the financial statements of Travelers Insurance Company Limited, (the "Company") for the year ended 31 December 2016 set out on pages 7 to 37. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 Part 16 of the Companies Act 2006. The nature of equalisation provisions, the amounts set aside at 31st December 2016 and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit and loss before tax, are disclosed in note 21.

Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the financial reporting council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;

- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Jonathan Bell

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

17 May 2017



Travelers Insurance Company Limited
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Travelers Insurance Company Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered office: Exchequer Court, 33 St. Mary Axe, London EC3A 8AG. Registered in England 1034343

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