

TRAVELERS 

**2017
ANNUAL
REPORT**

TRAVELERS INSURANCE COMPANY LIMITED

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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) (resigned 4 September 2017)
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

With effect from 1 May 2018 the Company has changed its registered office from:

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

to:
23-27 Alie Street,
London E1 8DS
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 2017.

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 profit of £21.7m in 2017 (2016 loss of £8.4m) and a 97.1% combined ratio (2016 123.3%). Excluding prior year reserve development the combined ratio was 101.4% (2016 112.7%), reflecting net claims reserve releases of £8.7m (2016 reserve deterioration of £20.7m).

The 2016 result included 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%. This deteriorated claims reserves by £50.0m and added 25.5 points to the 2016 combined ratio. The 2017 result also benefited from the re-underwriting of certain segments of the portfolio and from a smaller number of large property claims than in the previous year.

Financial results

Gross written premiums increased by 4.0% to £230.3m (2016 £221.5m). Growth was driven by our Technology and Corporate Accounts product lines. Rate change was positive at 1.6% for the year, whilst levels of new business increased by over 20% compared to the prior year.

A focus on expense management led to a reduction in operating expenses and contributed to lowering the expense ratio by 1.9 points to 45.5%. This reduction in the cost base is expected to continue in 2018 as the actions taken in 2017 fully earn into the results.

The investment return deteriorated to £19.1m (2016 £25.7m), reflecting a higher level of realised investment losses than in the prior year, as well as lower yields on the bonds held. We continue to invest in high quality corporate and government bonds with an average credit quality of AA (2016 AA). 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 totalled £1.07bn (2016 £1.08bn).

Trading environment

The trading environment remained demanding. We achieved positive rate change, which was more or less in line with our estimate of claims inflation. Our focus continues to be on improving the Company’s underwriting profitability through actively managing the mix of the portfolio we write towards the higher margin sectors and products. 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

In June we launched the new Management Liability Package (MLP). This online system enables brokers to receive Management Liability quotes and bind coverage for their clients in a matter of minutes.

Capital management

The Company’s financial strength remains strong with net assets improving during the year to £445.5m (2016 £436.9m). As of 1 May 2018 the Company financial strength ratings are A (excellent), from AM Best, and AA from Standard and Poor’s.

During 2017 the Company did not pay a dividend (2016 £nil).

Brexit

The Company trades in Europe through its branch in Ireland and by writing business on a freedom of services basis to support its UK and Ireland insureds’ exposures in the European Union (“EU”). Approximately 17% of the Company’s gross written premiums are written in the EU excluding the UK, the majority of which is written through its branch in Ireland. In December 2017 we announced our intention to establish a new subsidiary in Ireland, subject to receiving all necessary regulatory approvals. Based in Dublin, this new subsidiary will enable Travelers to continue to serve seamlessly its customers and broking partners in Ireland and across Europe when the UK exits the European Union.

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.

Strategic Report of the Directors *continued*

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.

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

1 May 2018

Directors' Report

The Directors present their annual report together with the financial statements for the 12 months ended 31st December 2017.

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 with the exception of Stephen Eccles who resigned on 4 September 2017.

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. At least once a year the Committee meets, both on its own and with the external auditors, without executive management being present.

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 2017 (2016 £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, 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
 23 – 27 Alie Street
 London E1 8DS

1 May 2018

Profit and Loss Account: Technical Account

- General Business

For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Gross premiums written	6	230,289	221,495
Outward reinsurance premiums		(27,107)	(30,528)
Net premiums written		203,182	190,967
Change in the gross provision for unearned premiums	21	(4,291)	4,462
Change in the provision for unearned premiums, reinsurers' share	21	2,774	242
Earned premiums, net of reinsurance		201,665	195,671
Allocated investment return transferred from the non-technical account		19,143	25,744
Claims paid:			
Gross amount		(151,665)	(189,415)
Reinsurers' share		22,132	35,435
Net claims paid		(129,533)	(153,980)
Change in the provision for claims:			
Gross amount	21	36,917	10,479
Reinsurers' share	21	(11,443)	(5,093)
Change in the net provision for unearned premiums		25,474	5,386
Claims incurred, net of reinsurance		(104,059)	(148,594)
Net operating expenses	9	(91,848)	(92,796)
Change in claims equalisation provision		-	13,140
Balance on the technical account		24,901	(6,835)

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 2017

	Note	2017 £000	2016 £000
Balance on the general business technical account		24,901	(6,835)
Investment income	8	30,325	31,993
Investment expenses and charges	10	(11,182)	(6,249)
Net Investment return		19,143	25,744
Allocated investment return transferred to the general business technical account		(19,143)	(25,744)
Other income	11	3,006	400
Profit/(loss) on ordinary activities before tax	5,12	27,907	(6,435)
Tax charge on profit/(loss) on ordinary activities	14	(6,188)	(1,934)
Profit/(loss) for the financial year		21,719	(8,369)

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

Statement of Comprehensive Income /(Loss)

For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Profit/(loss) for the financial year		21,719	(8,369)
Unrealised (losses) /gains on investments	15	(15,994)	5,553
Tax credit/(charge) on unrealised (losses)/gains on investments	14	2,801	(172)
Currency translation gains/(losses) on foreign currency net investments		95	(1,026)
Tax charge on currency translation gains/(losses)	14	(18)	-
Total comprehensive income/(loss)		8,603	(4,014)

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

Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital £000	Share premium £000	Profit and loss account £000	Revaluation reserve £000	Total equity £000
At 1 January 2016	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)
Balance at 31 December 2016	203,822	699	236,963	(4,610)	436,874
Profit for the financial year	-	-	21,719	-	21,719
<i>Other gains/(losses) recognised in Other Comprehensive Income/(Loss)</i>					
Unrealised losses on investments, net of tax	-	-	-	(13,193)	(13,193)
Currency translation differences on foreign currency net investments, net of tax	-	-	77	-	77
Reserves transfer	-	-	805	(805)	-
Balance at 31 December 2017	203,822	699	259,564	(18,608)	445,477

The profit and loss account includes £7,433,000 (2016 £3,210,000) of net realised losses, net of tax, which have been transferred from the revaluation reserve.

Balance Sheet

As at 31 December 2017

	Note	2017 £000	2016 £000
ASSETS			
Investments			
Investments in group undertakings	30	-	-
Other financial investments	15	1,065,850	1,079,565
Reinsurers' share of technical provisions			
Provision for unearned premiums	21	12,283	9,347
Claims outstanding	21	48,795	59,893
		61,078	69,240
Debtors			
Debtors arising out of insurance operations	16	38,208	38,319
Debtors arising out of reinsurance operations	17	3,804	7,665
Other debtors	18	18,342	9,706
		60,354	55,690
Other assets			
Deferred tax asset	19	21,465	23,282
Cash at bank and in hand		19,662	31,243
		41,127	54,525
Prepayments and accrued income			
Accrued interest		12,822	12,052
Deferred acquisition costs	21	15,618	13,962
		28,440	26,014
TOTAL ASSETS		1,256,849	1,285,034

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

Balance Sheet *continued*

As at 31 December 2017

	Note	2017 £000	2016 £000
LIABILITIES			
Capital and reserves			
Called up share capital	20	203,822	203,822
Share premium account		699	699
Profit and loss account		259,564	236,963
Revaluation reserve		(18,608)	(4,610)
Shareholders' funds attributable to equity interests		445,477	436,874
Technical provisions			
Provision for unearned premiums	21	124,026	119,207
Claims outstanding	21	650,982	682,694
		775,008	801,901
Creditors			
Creditors arising out of insurance operations	23	3,593	3,490
Creditors arising out of reinsurance operations		6,579	15,369
Other creditors including taxation and social security	24	22,166	23,422
		32,338	42,281
Accruals and deferred income			
	25	4,026	3,978
TOTAL LIABILITIES		1,256,849	1,285,034

These financial statements were approved by the Board of Directors on 1 May 2018 and were signed on its behalf by:

Mike Gent

Chief Financial Officer

1 May 2018

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 23-27 Alie Street, London E1 8DS. 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 1 May 2018. 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 principal 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.

A variety of different statistical techniques are used by the Company's in-house actuaries to determine the appropriate level of claims 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;

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Claims outstanding *continued*

- 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 claims 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.

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).

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. 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.

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Classification *continued*

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.

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.

Investment return

Interest income is recognised on 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 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.

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Foreign currency translation *continued*

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 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 2017 was £361.2m (2016 £377.4m). 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.

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 £19.9m at 31 December 2017 (2016 £23.4m).

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.

Notes to the Financial Statements *continued*

4 Risk and capital management *continued*

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.

Notes to the Financial Statements *continued*

4 Risk and capital management *continued*

Insurance risk continued

Concentration of insurance risk

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

	2017							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	1,273	75,970	4,074	10,746	99,106	81	191,250	
Ireland	-	13,279	-	6,827	14,327	-	34,433	
Other	-	2,142	-	260	2,204	-	4,606	
Total	1,273	91,391	4,074	17,833	115,637	81	230,289	

	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	

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 recovery and the claims handling costs:

	2017 £000	2016 £000
Total decrease on result after tax and net assets	1,660	1,614

Profit and loss sensitivity to expenses

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

	2017 £000	2016 £000
Total decrease on result after tax and net assets	3,780	3,828

Notes to the Financial Statements *continued*

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 are 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:

	2017					Total £000
	AAA £000	AA £000	A £000	BBB £000	Not rated £000	
Investments	363,124	539,158	153,833	9,735	-	1,065,850
Reinsurance claims outstanding	26,900	7,188	13,443	807	457	48,795
Reinsurance debtors	293	2,844	661	-	6	3,804
Insurance debtors	-	-	-	-	38,208	38,208
Other debtors	-	-	-	-	18,342	18,342
Cash at bank and in hand	-	-	14,719	4,943	-	19,662
Total by rating	390,317	549,190	182,656	15,485	57,013	1,194,661
Percentage by rating	32.7%	46.0%	15.3%	1.3%	4.7%	100%

	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%

The largest counterparty exposure within the AAA rating at 31 December 2017 was the European Investment Bank (2016 Kreditanstalt fuer Wiederaufbau). Within the AA rating, the largest counterparty exposure was the UK government as at 31 December 2017 and 2016. 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.

Notes to the Financial Statements *continued*

4 Risk and capital management *continued*

Credit risk *continued*

The largest reinsurance counterparty exposure within the AAA rating at 31 December 2017 was Travelers Casualty and Surety Company of America (2016 St Paul Fire and Marine Insurance Company). Within the AA rating, the largest reinsurance counterparty at both 31 December 2017 and 2016 was Munich Reinsurance Company.

As at 31 December 2017 and 2016 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 2017 the Company had pledged as collateral to support the capital requirements of affiliate subsidiary operations £27m (2016 £79m) of government securities.

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

	2017						Total £000
	Within terms £000	0-1 month £000	2-3 months £000	Over 3 months £000	Impairments £000		
Investments	1,065,850	-	-	-	-	1,065,850	
Reinsurance claims outstanding	50,115	-	-	-	(1,320)	48,795	
Reinsurance debtors	680	31	106	2,987	-	3,804	
Insurance debtors	34,849	1,394	1,757	913	(705)	38,208	
Other debtors	18,342	-	-	-	-	18,342	
Cash at bank and in hand	19,662	-	-	-	-	19,662	
Total	1,189,498	1,425	1,863	3,900	(2,025)	1,194,661	

	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	

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 £17m (2016 £21m) after tax.

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

Notes to the Financial Statements *continued*

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 2017	449,511	2,699	(6,532)	(201)	445,477
Net assets 31 December 2016	441,357	(1,674)	(2,621)	(188)	436,874

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 2017	(245)	300	594	(726)
Increase/(decrease) in net assets 31 December 2016	152	(186)	238	(291)

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:

	2017			
	Total £000	0-1 year £000	2-5 years £000	More than 5 years £000
Technical provisions	775,008	335,775	309,839	129,394
Creditors	32,338	32,338	-	-
Total	807,346	368,113	309,839	129,394
	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

Notes to the Financial Statements *continued*

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 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 £397m (2016 £335m). Following the 2016 year end the Company returned £50m of the assets previously pledged to Lloyd's.

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 is 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 2017 the Company's regulatory solvency capital requirement was £310m (2016 £313m), and adjusting for the deferred tax asset and the assets pledged to support affiliate companies' capital requirements at Lloyds, its coverage ratio was 128.0% (2016 106%).

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:

	2017		2016	
	Continuing operations £000	Run-off operations £000	Continuing operations £000	Run-off operations £000
Net premiums written	203,182	-	190,967	-
Net premiums earned	201,665	-	195,671	-
Allocated investment return	18,815	328	25,293	451
	220,480	328	220,964	451
Claims paid - gross amount	(147,681)	(3,984)	(186,988)	(2,427)
Claims paid - reinsurers' amount	21,085	1,047	35,560	(125)
Change in provisions for claims - gross amount	34,605	2,312	9,394	1,085
Change in provisions for claims - reinsurers' amount	(8,031)	(3,412)	(7,276)	2,183
Claims incurred, net of reinsurance	(100,022)	(4,037)	(149,310)	716
Net operating expenses	(91,417)	(431)	(92,375)	(421)
Claims equalisation reserve	-	-	13,140	-
Balance on the technical account	29,041	(4,140)	(7,581)	746
Investment income	29,997	328	31,540	453
Investment expenses and charges	(11,182)	-	(6,247)	(2)
	18,815	328	25,293	451
Allocated investment return transferred to the general business technical account	(18,815)	(328)	(25,293)	(451)
Other income/(charges)	2,945	61	594	(194)
Profit/(loss) on ordinary activities before tax	31,986	(4,079)	(6,987)	552

Notes to the Financial Statements *continued***6 Analysis of underwriting result****(a) Analysis of gross premiums and profit before taxation**

	Gross premiums written £000	2017 Gross premiums earned £000	Profit/(loss) before tax £000
By geographical segment			
United Kingdom	195,880	191,402	28,419
Republic of Ireland	34,409	34,596	1,228
Overseas branches in run-off	-	-	(1,740)
Total	230,289	225,998	27,907
By geographical segment			
	Gross premiums written £000	2016 Gross premiums earned £000	Loss before tax £000
United Kingdom	189,364	195,774	(3,708)
Republic of Ireland	32,131	30,183	(1,569)
Overseas branches in run-off	-	-	(1,158)
Total	221,495	225,957	(6,435)

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

(b) Analysis of gross written premiums

	2017 £000	2016 £000
Resulting from contracts concluded by the Company:		
In the EU member state of its head office	195,880	189,364
In other EU member states	34,409	32,131
	230,289	221,495

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

	2017				
	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Motor	17,833	17,019	(5,254)	(5,522)	(1,310)
Fire and other damage to property	91,391	86,870	(35,121)	(41,137)	(12,098)
Third party liability	115,637	116,743	(60,374)	(45,061)	(6,491)
Credit and Suretyship	1,273	1,196	(10,845)	(1,021)	10,813
Marine	4,074	3,831	(3,502)	(1,523)	(1,683)
Miscellaneous	81	339	348	163	(622)
	230,289	225,998	(114,748)	(94,101)	(11,391)

	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

Commission payable in respect of direct insurance amounted to £33,273,000 (2016 £29,761,000).

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

Over /(under) 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:

	2017	2016
	£000	£000
Motor	(81)	(17,480)
Fire and other damage to property	2,568	12,871
General liability	6,224	(15,534)
Marine	(176)	(636)
Miscellaneous	133	40
	8,668	(20,739)

For 2016, the movement in prior year claims provision is after reflecting the impact of the announcement from the Lord Chancellor 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

	2017	2016
	£000	£000
Income from investments	28,866	30,757
Gains on the realisation of investments	1,024	1,236
Dividend received from subsidiary	435	-
	30,325	31,993

9 Net operating expenses

	2017	2016
	£000	£000
Acquisition costs	33,273	29,761
Change in gross deferred acquisition costs	(1,666)	(53)
	31,607	29,708
Administrative expenses	62,494	64,499
Gross operating expenses	94,101	94,207
Reinsurance commissions and profit participation	(3,360)	(1,263)
Change in deferred reinsurance commission	1,107	(148)
	91,848	92,796

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

	2017	2016
	£000	£000
Investment management expenses	953	1,001
Losses on the realisation of investments	10,229	5,248
	11,182	6,249

11 Other income

	2017	2016
	£000	£000
Foreign exchange gain/(loss)	351	(1,399)
Pool Re distribution	1,585	629
Fee income	429	797
Other income	641	373
	3,006	400

12 Profit/(loss) on ordinary activities before tax

	2017	2016
	£000	£000
<i>Profit/(loss) on ordinary activities before tax is stated after crediting</i>		
Income from fixed income investments	28,866	30,733
<i>after charging</i>		
Auditor's remuneration:		
Audit of these financial statements	185	175
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	-	4
Audit-related assurance services	103	85
Taxation compliance services	-	8

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

	2017	2016
	£000	£000
Directors' fees	116	116
Directors' emoluments	663	648
Company contributions to money purchase schemes	11	15

The salary and bonus of the highest paid director for the year was £427,880 (2016 £391,167) and the pension contribution to a money purchase scheme was £5,000 (2016 £7,650). Share options were exercised in 2017 (were exercised in 2016).

	Number of directors	
	2017	2016
Retirement benefits are accruing to the following number of directors:		
Money purchase schemes	3	3
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**

	2017	2016
	£000	£000
United Kingdom Corporation Tax		
United Kingdom Corporation Tax at 19.25% (2016 20.0%)	1,880	-
Adjustment in respect of prior periods	-	994
Total current tax charge	1,880	994
Foreign Tax		
Adjustments in respect of prior periods	(293)	-
Deferred tax charge/(credit)	5,192	(262)
Changes in tax rate	(591)	1,202
Tax charge on profit/(loss) on ordinary activities	6,188	1,934

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

	2017 £000	2016 £000
Deferred tax:		
Charge on currency translation gains	18	-
(Credit)/charge on unrealised (losses)/gains on investments	(2,801)	172
	(2,783)	172

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

The tax charge for the year is higher than (2016 credit - lower than) the standard rate of corporation tax in the UK:

	2017 £000	2016 £000
Profit/(loss) on ordinary activities before tax	27,907	(6,435)
Tax using the corporation tax rate of 19.25% (2016 20.0%)	5,372	(1,287)
Effect of tax rate change	(591)	1,202
Prior year adjustments - current tax	(293)	994
Prior year adjustments - deferred tax	93	(281)
Prior year group relief - deferred tax	1,992	-
Losses group relieved for no reimbursement	-	631
Non-taxable income	(388)	(126)
Transition adjustment re loan relationships	-	805
Other differences	3	(4)
Total tax charge	6,188	1,934

As at 31 December 2017 the Company has tax losses carried forward of £112,232,000 (2016 £133,604,000).

The 2015 budget on 8 July 2015 announced that the UK corporation tax rate will reduce to 18% by 2020, with 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 2017 £000	Fair Value 2016 £000	Cost 2017 £000	Cost 2016 £000
Debt and other fixed income securities	1,065,850	1,079,565	1,086,344	1,084,068
Included in debt and other fixed income securities:				
UK fixed income securities	392,556	413,608	406,264	417,285
Overseas fixed income securities	673,294	665,957	680,080	666,783
	1,065,850	1,079,565	1,086,344	1,084,068

Notes to the Financial Statements *continued***15 Investments** *continued*

(b) Movement in the year	2017	2016
	£000	£000
Investments brought forward	1,079,565	1,100,881
Purchases	308,012	141,155
Fair value adjustments	(15,994)	5,553
Disposals/maturities	(310,607)	(186,192)
Currency translation movements	4,874	18,168
Investments carried forward	1,065,850	1,079,565

(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 (i.e. developed using market data) for the asset or liability, either directly or indirectly;
- Level 3 - Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability and therefore, prices are determined using a valuation technique.

The Company utilised a pricing service to estimate the fair value of its investments at both 31 December 2017 and 31 December 2016.

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 realised 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 recognised pricing services. When quoted market prices are unavailable, the Company utilises 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	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets as at 31 December 2017	-	1,065,850	-	1,065,850
Financial assets as at 31 December 2016	-	1,079,565	-	1,079,565

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

	2017 £000	2016 £000
Amounts owed by intermediaries	37,816	38,319
Amounts owed by policyholders	392	-
	38,208	38,319

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

	2017 £000	2016 £000
Amounts owed by reinsurers	3,804	7,665

18 Other debtors

	2017 £000	2016 £000
Amounts owed by group undertakings	17,916	8,179
UK tax recoverable	-	1,376
Foreign tax recoverable	296	-
Other debtors	130	151
	18,342	9,706

19 Deferred tax asset

The amounts provided for deferred taxation are set out below:

2017	Tax losses carried forward £000	Expense provision £000	Equalisation reserve £000	Unrealised losses on investments £000	Timing differences on realised losses on investments £000	Total net deferred tax asset/(liabilities) £000
Deferred tax asset/(liability) brought forward	23,380	74	-	965	(1,137)	23,282
Current year P&L	(3,543)	-	422	-	-	(3,121)
Prior year P&L	(76)	-	(2,009)	-	-	(2,085)
OCI	(484)	-	-	2,801	484	2,801
FX	(4)	1	-	-	-	(3)
Rate change	591	-	-	-	-	591
	19,864	75	(1,587)	3,766	(653)	21,465
2016	Tax losses carried forward £000	Expense provision £000	Equalisation reserve £000	Unrealised losses on investments £000	Timing differences on realised losses on investments £000	Total net deferred tax asset/(liabilities) £000
Deferred tax asset/(liability) brought forward	24,295	97	-	-	-	24,392
Current year P&L	-	(21)	-	-	-	(21)
Prior year P&L	281	-	-	-	-	281
OCI	-	-	-	970	(1,137)	(167)
FX	-	4	-	(5)	-	(1)
Rate change	(1,196)	(6)	-	-	-	(1,202)
	23,380	74	-	965	(1,137)	23,282

The tax losses carried forward have no time limit. There were no amounts that were unprovided for in the year (2016 £nil). The net reversal of deferred tax expected to occur next year is £2,733,000 (2016 £1,251,000), relating to the release of tax losses carried forward of £14,386,000 (2016 £6,500,000).

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

	2017	2016
	£000	£000
<i>Allotted, called up and fully paid</i>		
203,822,115 (2016 203,822,115) ordinary shares of £1 each	203,822	203,822

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

	2017		2016	
	£000	£000	£000	£000
<i>Gross</i>				
At the start of the year		119,207		120,615
Premiums written	230,289		221,495	
Premiums earned	(225,998)		(225,957)	
Changes in unearned premium provision		4,291		(4,462)
Currency translation differences		528		3,054
At the end of the year		124,026		119,207
<i>Reinsurance amount</i>				
At the start of the year		(9,347)		(8,749)
Premiums written	(27,107)		(30,528)	
Premiums earned	24,333		30,286	
Changes in unearned premium provision		(2,774)		(242)
Currency translation differences		(162)		(356)
At the end of the year		(12,283)		(9,347)

Notes to the Financial Statements *continued*21 Technical provisions and deferred acquisition costs *continued**(b) Claims outstanding*

	2017	2016
	£000	£000
Gross		
At the start of the year	682,694	671,120
Claims paid	(151,665)	(189,415)
Movement in claims incurred but not reported	(17,942)	(31,317)
Movement in claims outstanding	135,143	209,211
Movement in ULAE	(2,453)	1,042
Currency translation differences	5,205	22,053
At the end of the year	650,982	682,694
Reinsurance amount		
At the start of the year	(59,893)	(62,293)
Claims paid	22,132	35,435
Movement in claims incurred but not reported	(702)	8,566
Movement in claims outstanding	(9,987)	(38,908)
Currency translation differences	(345)	(2,693)
At the end of the year	(48,795)	(59,893)

(c) Deferred acquisition costs

	2017	2016
	£000	£000
Gross		
At the start of the year	(13,962)	(13,362)
Movement in provision	(1,666)	(53)
Currency translation differences	10	(547)
At the end of the year	(15,618)	(13,962)
Reinsurance amount		
At the start of the year	248	316
Movement in provision	1,107	(148)
Currency translation differences	5	80
At the end of the year	1,360	248

(d) Claims equalisation provision

	2017	2016
	£000	£000
At the start of the year	-	13,140
Movement in provision	-	(13,140)
At the end of the year	-	-

Notes to the Financial Statements *continued***23 Creditors arising out of direct insurance operations**

	2017	2016
	£000	£000
Amounts owed to intermediaries	3,593	3,369
Amounts owed to policyholders	-	121
	3,593	3,490

24 Other creditors including taxation and social security

	2017	2016
	£000	£000
Insurance premium taxes	7,133	6,209
Amounts owed to group undertakings	13,258	17,152
Corporation tax payable	1,720	-
Other creditors	55	61
	22,166	23,422

25 Accruals and deferred income

	2017	2016
	£000	£000
Reinsurers' share of deferred acquisition costs	1,360	248
Accrued expenses	2,666	3,730
	4,026	3,978

26 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.

27 Commitments and Contingent Liabilities

In the normal course of business letters of credit to the value of £55,822 (2016 £60,812) 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 £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 £27m (2016 £79m) in fixed income securities 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 earned by the Company were £0.4m (2016 £0.8m).

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 its obligations this responsibility would fall to the Company. The updated valuation for FRS 102 as at 31 December 2017 identified a deficit of £3,264,000 (2016 deficit of £7,259,000).

Notes to the Financial Statements *continued*

28 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, 23-27 Alie Street, London E1 8DS or the Company's website: www.travelers.co.uk.

29 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.

30 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 with the only movement in 2017 being the payment of a £434,538 dividend. Travelers Professional Risks Limited had net assets at 31 December 2017 of £nil (2016 £434,538).

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

1. Our opinion is unmodified

We have audited the financial statements of Travelers Insurance Company Limited (“the Company”) for the year ended 31 December 2017 which comprise the profit and loss account : technical account – general business, profit or loss account : non-technical account, statement of comprehensive income/loss, statement of changes in equity, balance sheet and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors in 1994. The period of total uninterrupted engagement is for the 24 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality:	£2.1m (2016:£3.0m)	
financial statements as a whole	0.9% (2016: 1.4%) of gross written premium	
Risks of material misstatement		vs 2016
Risk	Valuation of claim reserves	<

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

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

	The risk	Our response
<p>Claims outstanding (£651.0 million gross, £602.2 million net; 2016: £682.7 million gross, £622.8 million net)</p> <p>Refer to note 2 Significant accounting policies and note 21 of Notes to the Financial Statements</p>	<p>Subjective valuation:</p> <p>Claims outstanding represent the largest risk for the Company. Valuation of these liabilities is highly judgemental, and requires a number of assumptions to be made that have high estimation uncertainty including the development pattern and expected loss ratio.</p> <p>In particular the allowance made for the Ogden rate change and Periodic Payment Order (PPO) reserves are very uncertain and have a high reserving risk.</p> <p>A margin is added to the actuarial best estimate of claims outstanding to make allowance for specific risks identified in assessment of the best estimate. The appropriate margin to recognise is a subjective judgement and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims.</p>	<p>With the assistance of our actuarial specialist, we performed the following:</p> <p>Control design and observation: Evaluation of the governance around the overall reserving process, including the scrutiny applied by reserving committees. We assessed the qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes.</p> <p>Control observation and operation: Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). We tested controls through inspecting or re-performing the reconciliations.</p> <p>Sector experience and Benchmarking: Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on historical experience, current trends and benchmarking to our own industry knowledge.</p> <p>Sensitivity analysis: Review of sensitivity analysis over key judgements and assumptions, such as the discount rates for Periodic Payment Order projections.</p> <p>Independent re-performance: Independent re-projection of the reserve balances for certain classes of business. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures. We have projected 79% of the estimated reserves and peer reviewed 18% of the Company's portfolio.</p> <p>Margin evaluation: Evaluation of the appropriateness of the margin to be applied to the actuarial best estimate. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate.</p> <p>Our results We found the valuation of the claims outstanding to be acceptable (2016: result: acceptable).</p>

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

3. Our application of materiality and an overview of the scope of our audit

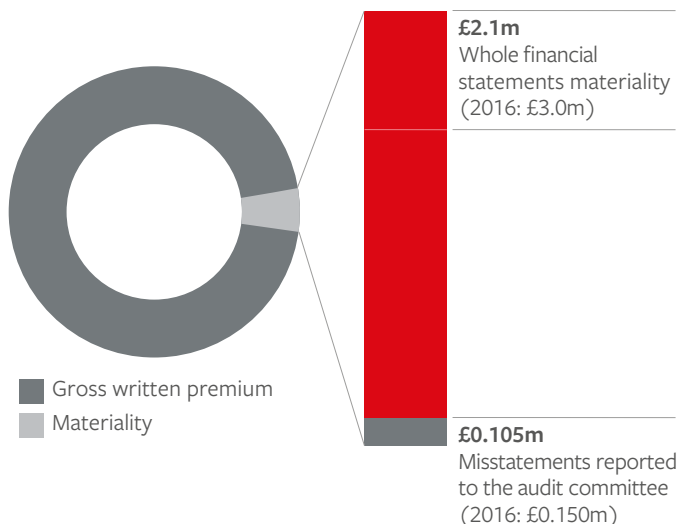
Materiality for the financial statements as a whole was set at £2.1 million (2016: £3.0 million), determined with reference to a benchmark of gross written premium, of which it represents 0.9% (2016: 1.4%). We consider gross written premium to be the most appropriate benchmark as the principal objectives of the Company is to write insurance policies.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £105,000 (2016: £150,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed at the Company's offices in Redhill and London other than procedures in relation to investments and IT general controls for the general ledger which were centrally performed by the auditor of the Company's parent entity, The Travelers Companies Inc. in the United States. We instructed the parent entity auditor to perform procedures over investments and the general ledger. We held telephone conference meetings with them and discussed the work performed and their findings.

Gross written premium
£230m (2016: £221m)

Materiality
£2.1m (2016: £3.0m)



4. We have nothing to report on going concern

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

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

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

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related Company legislation) and taxation legislation. We considered the extent of compliance with those

laws and regulations as part of our procedures on the related financial statements items.

In addition, we considered the impact of laws and regulations in the specific areas of regulatory capital and conduct recognising the financial and regulated nature of the Company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated the identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Salim Tharani

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

2 May 2018



Travelers Insurance Company Limited
61 - 63 London Road, Redhill, Surrey RH1 1NA

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: 23 - 27 Abchurch Lane, London EC4A 3DF. Registered in England 1034343.

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