ANNUAL REPORT
2015

TRAVELERS

TRAVELERS INSURANCE COMPANY LIMITED

Contents

The Company

Directors

Sir John Carter	(Independent Non-Executive)
Anthony Coughlan	(Independent Non-Executive)
Gary Dibb	(Independent Non-Executive)
Stephen Eccles	(Non-Executive)
Paul Eddy	(Non-Executive)
Sean Genden	(Non-Executive)
Mike Gent	(Executive)
Graham McKean	(Independent Non-Executive)
Kevin Smith	(Chairman)
Matthew Wilson	(Chief Executive Officer - appointed - 5 June 2015)

Company Secretary

John Abramson

Registered Office

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

Bankers

National Westminster Bank Plc
Citibank NA

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 2015.

Principal activities

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 ("TICL") reported a £38.4m loss in 2015 (2014 £9.8m loss) and a 131.3% combined ratio (2014 116.0%). The poor result reflects the impact of the December floods and a frequency of large losses that greatly exceeded our normal expectations. The floods cost the Company £23m, adding 10.8 pts to its 2015 combined ratio. Large losses added 24.3 points to the combined ratio (2014 11.4pts). Our primary focus in 2016 will be to return the Company to underwriting profitability.

Financial results

Gross written premiums reduced by 5.6% to £234.4m (2014 £248.4m). The major drivers of this reduction were the final stage of the deliberate underwriting action taken to address renewal business in certain underperforming areas of our local authority portfolio, the impact of FX rates on our Ireland premiums and lower new business levels in 2015. Whilst renewal retention was stronger in 2015, reflecting the actions taken in 2014 to reduce our exposure to large local authorities, rate change whilst positive was down on 2014 and new business levels were also down as fewer opportunities presented themselves in what was a challenging new business market.

The loss for the year did include a modest release from prior year reserves of £0.7m (2014 £14.4m increase). Excluding prior year reserve development the combined ratio was 131.7% (2014 109.6%).

The investment return reduced to £17.9m (2014 £24.5m), reflecting the continued low interest rate environment and the impact of higher yielding bonds maturing to be replaced by lower yielding bonds. We continue to invest wholly in high quality corporate and government bonds with an average credit quality of AA+ (2014 AA+). We do not plan on any material changes to this investment strategy. We expect low investment returns to persist for the foreseeable future, which underlines the importance of increasing underwriting profits to achieve our target level of returns. Investments under management total £1.10bn (2014 £1.16bn).

New products and services

We continued our product development programme with the addition of a large corporate accounts team and a team focused on developing our D&O offering.

Trading environment

The trading environment remained challenging in 2015. We achieved positive rate change, but this was only modestly ahead of claims inflation trends. Our focus in 2016 will be on returning the Company to underwriting profitability. This will involve taking appropriate underwriting and pricing actions to achieve our profitability targets on those portfolios not currently delivering the required level of return and focusing our sales efforts on growing those lines where we are currently achieving appropriate returns.

Capital management

During 2015 we did not pay a dividend (2014 £nil). Although our capital position has reduced, our financial strength remains strong with net assets of £440.9m (2014 £487.1m). As of 23 March 2016 our financial strength ratings are A (excellent) from A.M. Best, and AA from Standard and Poor's. The Company is continuing to be in full compliance with its regulatory capital requirements under the Solvency II regime which commenced on 1 January 2016.

Key performance indicators (KPIs)

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

Principal risks and uncertainties

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

Insurance risk

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

Strategic Report of the Directors *continued*

Insurance risk *continued*
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 Risk 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 rating and 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 Operational Risk Committee.

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

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

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

On behalf of the board

Matthew Wilson
Chief Executive Officer
Travelers Insurance Company Limited

23 March 2016

Directors' Report

The Directors present their annual report together with the financial statements for the 12 months ended 31 December 2015.

Principal activities

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, except where noted otherwise. Keith Purvis resigned on 30 June 2015.

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 McKean was Chairman of the Audit Committee until 25 March 2015, at which point he stepped down and Mr Coughlan assumed the role of Chairman. 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 also 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 any executive management 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 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. Also recycling facilities are available for all office waste.

Political contributions

Political contributions were nil during 2015 (2014 £nil).

Reappointment of Auditors

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

Directors' Report *continued*

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

a) select suitable accounting policies and then apply them consistently;

b) make judgments and estimates that are reasonable and prudent;

c) state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

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

On behalf of the board

John Abramson
Company Secretary
Exchequer Court, 33 St. Mary Axe
London EC3A 8AG

23 March 2016

Profit and Loss Account : Technical Account - General Business

For the year ended 31 December 2015

	Note	**2015** £000	2014 *Restated* £000
Gross premiums written	6	234,354	248,387
Outward reinsurance premiums		(25,518)	(36,405)
Net premiums written		208,836	211,982
Change in the gross provision for unearned premiums	22	7,725	9,173
Change in the provision for unearned premiums, reinsurers' share	22	(2,627)	3,860
Earned premiums, net of reinsurance		213,934	225,015
Allocated investment return transferred from the non-technical account		17,900	24,491
Claims paid :			
Gross amount		(273,499)	(207,254)
Reinsurers' share		85,831	8,262
		(187,668)	(198,992)
Change in the provision for claims :			
Gross amount	22	62,325	(23,898)
Reinsurers' share	22	(59,268)	58,287
		3,057	34,389
Claims incurred, net of reinsurance		(184,611)	(164,603)
Net operating expenses	9	(96,363)	(96,437)
Change in claims equalisation provision	21,22	3,890	(288)
Balance on the technical account	5	(45,250)	(11,822)

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 2015

	Note	**2015** £000	2014 *Restated* £000
Balance on the general business technical account		(45,250)	(11,822)
Investment income	8	33,030	36,449
Investment expenses and charges	10	(15,130)	(11,958)
		17,900	24,491
Allocated investment return transferred to the general business technical account		(17,900)	(24,491)
Other income	11	(308)	617
Loss on ordinary activities before tax	12	(45,558)	(11,205)
Tax on loss on ordinary activities	14	7,158	1,430
Loss for the financial year		(38,400)	(9,775)

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

Statement of Comprehensive Income/(Loss)

For the year ended 31 December 2015

	Note	**2015** £000	2014 *Restated* £000
Loss for the financial year		(38,400)	(9,775)
Unrealised (losses)/ gains on investments	15	(10,322)	9,167
Tax on unrealised (losses)/ gains on investments	14	1,899	(1,833)
Currency translation gains on foreign currency net investments		804	179
Taxation on currency translation gains	14	(147)	(37)
Total comprehensive loss		(46,166)	(2,299)

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

Statement of Changes in Equity

For the year ended 31 December 2015

	Share capital	Share premium	Profit and loss account	Revaluation reserve	Total equity
2014 *Restated*	£000	£000	£000	£000	£000
At 1 January 2014	203,822	699	293,734	(8,902)	489,353
Loss for the financial year	-	-	(9,775)	-	(9,775)
Other gains recognised in other comprehensive loss					
Unrealised gains on investments, net of tax	-	-	-	7,334	7,334
Currency translation differences on foreign currency net investments, net of tax	-	-	142	-	142
Closing equity at 31 December 2014	203,822	699	284,101	(1,568)	487,054
2015					
Loss for the financial year	-	-	(38,400)	-	(38,400)
Other (losses)/gains recognised in other comprehensive loss					
Unrealised losses on investments, net of tax	-	-	-	(8,423)	(8,423)
Currency translation differences on foreign currency net investments, net of tax	-	-	657	-	657
Closing equity at 31 December 2015	203,822	699	246,358	(9,991)	440,888

The profit and loss account includes £10,751,000 (2014 £7,631,000) realised losses, net of tax which has been transferred from the revaluation reserve.

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

Balance Sheet

As at 31 December 2015

	Note	2015 £000	2014 £000
ASSETS			
Investments			
Investments in group undertakings	31	-	-
Other financial investments	15	1,100,881	1,163,396
Reinsurers' share of technical provisions			
Provision for unearned premiums	22	8,749	11,375
Claims outstanding	22	62,293	122,351
		71,042	133,726
Debtors			
Debtors arising out of insurance operations	16	29,256	37,062
Debtors arising out of reinsurance operations	17	7,806	2,969
Other debtors	18	659	2,791
		37,721	42,822
Other assets			
Deferred tax asset	19	24,392	16,476
Cash at bank and in hand		22,325	34,853
		46,717	51,329
Prepayments and accrued income			
Accrued interest		12,895	12,242
Deferred acquisition costs	22	13,362	13,839
		26,257	26,081
TOTAL ASSETS		**1,282,618**	**1,417,354**

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

Balance Sheet *continued*

As at 31 December 2015

	Note	**2015** £000	2014 £000
LIABILITIES			
Capital and reserves			
Called up share capital	20	203,822	203,822
Share premium account		699	699
Profit and loss account		246,358	284,101
Revaluation reserve		(9,991)	(1,568)
Shareholders' funds attributable to equity interests		440,888	487,054
Technical provisions			
Provision for unearned premiums	22	120,615	128,694
Claims outstanding	22	671,120	741,003
Claims equalisation provision	21,22	13,140	17,030
		804,875	886,727
Creditors			
Creditors arising out of insurance operations	24	3,938	5,153
Creditors arising out of reinsurance operations		9,929	16,832
Other creditors including taxation and social security	25	19,098	17,296
		32,965	39,281
Accruals and deferred income	26	3,890	4,292
TOTAL LIABILITIES		1,282,618	1,417,354

These financial statements were approved by the Board of Directors on 23 March 2016 and were signed on its behalf by:

Mike Gent
Chief Financial Officer
23 March 2016

Travelers Insurance Company Limited
Registered in England No 1034343

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

Notes to the Financial Statements

1 Basis of preparation

Travelers Insurance Company Limited ("TICL") (the "Company") is a limited liability company incorporated in England. Its registered office is at Exchequer Court, 33 St Mary Axe, London EC3A 8AG. The financial statements of the Company have been prepared in accordance with the provisions of section 396 of the Companies Act 2006, including applying the requirements set out in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies. The Company's financial statements have been prepared in compliance with Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"), as issued in September 2015, and Financial Reporting Standard 103 - "Insurance contracts" ("FRS 103"), as issued in March 2014. The Company transitioned from previously extant UK GAAP to FRS 102 and FRS 103 with effect from 1 January 2015. Comparative figures have been restated accordingly. An explanation of how the transition to FRS 102 has affected the financial position and result for the year is provided in note 32.

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 TICL were approved for issue by the Board of Directors on 23 March 2016. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements have been presented in Sterling, rounded to the nearest thousand pounds.

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

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

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

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;

- Cash flow statement and related notes; and

- Key management personnel compensation.

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

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

Notes to the Financial Statements *continued*

2 Significant accounting policies

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

Basis of accounting for underwriting activities
All classes of business are accounted for on an annual basis.

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Claims outstanding *continued*

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

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

All projections are carried out separately for each country, product and line of business.

Large claims are identified and reserved for separately.

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

In arriving at the level of claims provisions a margin is carried over and above the actuarial best estimate so that no adverse run or 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 reinsurance contract incepts. Premiums are expensed over the period of the underlying reinsurance contract. A reinsurance asset is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the gross provision for losses reported under insurance contract liabilities. The amount recoverable is reduced where there is an event after the initial recognition that provides objective evidence that the Company may not receive all amounts due under the reinsurance contract. If there is such objective evidence the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the profit and loss account.

Equalisation provisions

Equalisation provisions have been established in accordance with the requirements of chapter 1.4 of the Prudential Source Book of Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

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 IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Financial assets and liabilities *continued*

Classification

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

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

Interest earned whilst holding available for sale financial assets is reported as interest income using the Effective Interest Rate (EIR) method. Foreign exchange gains or losses resulting from changes in the amortised cost of available-for-sale debt security investments are also recognised in profit and loss. Other fair value changes, including other 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 amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to the application of the effective interest method are reflected as a component of interest income.

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

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

Recognition

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

Identification and measurement of impairment

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

At each reporting date the Company assesses whether there is objective evidence that financial assets that are not invested assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after initial recognition of an asset, and that the loss event has an impact of the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Company of any significant financial difficulty of the issuer, or significant changes in the environment in which the issuer operates.

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

Offsetting

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

2 Significant accounting policies *continued*

Investment return

Interest income is recognised as it accrued in the income statement, using the EIR method. Realised gains or losses represent the difference between net sales proceeds and purchase price.

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

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses during the year comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period. Movements in unrealised investment gains and losses are reported in the statement of other comprehensive income.

Functional currencies

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

Foreign currency translation

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

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

Deferred tax

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

3 Use of critical judgements, assumptions and estimates

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

The most critical estimate included within the Company's balance sheet is that in respect of losses incurred but not reported. The total gross estimate within the Company's balance sheet as at 31 December 2015 was £339.4m (2014 £329.8m). 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 £24.4m at 31 December 2015 (2014 £16.5m).

4 Risk and capital management

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

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

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

Insurance risk

Management of insurance risk

The Underwriting Risk 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 Risk Committee meets monthly and will address new product ideas, emerging claims issues, product and line of business profitability issues, as well as monitoring the overall portfolio performance.

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

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

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

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

4 Risk and capital management *continued*

Insurance risk *continued*

Concentration of insurance risk

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

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

2014	Credit and Suretyship £000	Fire and other damage to property £000	Marine £000	Motor £000	Third party liability £000	Miscellaneous £000	Total £000
United Kingdom	369	79,348	12,000	14,810	114,582	536	221,645
Ireland	5	9,321	-	4,746	11,119	-	25,191
Other	-	400	38	-	1,050	63	1,551
Total	374	89,069	12,038	19,556	126,751	599	248,387

Net loss ratio sensitivity

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

	2015 £000	2014 £000
Total decrease on result after tax and net assets	1,746	1,800

Profit and loss sensitivity to expenses

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

	2015 £000	2014 £000
Total decrease on result after tax and net assets	3,932	3,935

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

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

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

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

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

			2014			
	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Investments	282,991	706,286	148,047	11,507	14,565	1,163,396
Reinsurance claims outstanding	29,629	48,309	42,264	-	2,149	122,351
Reinsurance debtors	1,942	315	649	-	63	2,969
Insurance debtors	-	-	-	-	37,062	37,062
Other debtors	-	-	-	-	2,791	2,791
Cash at bank and in hand	-	56	33,863	934	-	34,853
Total by rating	314,562	754,966	224,823	12,441	56,630	1,363,422
Percentage by rating	23.1%	55.3%	16.5%	0.9%	4.2%	100%

The largest counterparty exposure within the AAA rating at both 31 December 2015 and 2014 is Kreditanstalt fuer Wiederaufbau. Within the AA rating, the largest counterparty exposure was the UK government as at 31 December 2015 and 2014. With the exception of AAA and AA government debt securities the largest credit exposure does not exceed 5% of the Company's total financial assets. The Company has no holdings in Government bonds of Greece, Italy, Spain or Portugal nor in any corporate bonds for companies based in those countries.

4 Risk and capital management *continued*

Credit risk *continued*

The largest reinsurance counterparty exposure within the AAA rating at both 31 December 2015 and 2014 is St Paul Fire and Marine Insurance Company. Within the AA rating, the largest reinsurance counterparty is Swiss Re Europe S.A for 31 December 2015 (2014 Munich Reinsurance Company UK Branch).

As at 31 December 2015 and 2014 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 2015 the Company had pledged as collateral to support the capital requirements of fellow subsidiary operations £100m (2014 £100m) of government securities.

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

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

			2014			
	Within terms £000	0-1 month £000	2-3 months £000	Over 3 months £000	Impairments £000	Total £000
Investments	1,163,396	-	-	-	-	1,163,396
Reinsurance claims outstanding	123,346	-	-	-	(995)	122,351
Reinsurance debtors	2,863	-	106	-	-	2,969
Insurance debtors	30,111	5,506	1,250	832	(637)	37,062
Other debtors	2,791	-	-	-	-	2,791
Cash at bank and in hand	34,853	-	-	-	-	34,853
Total	1,357,360	5,506	1,356	832	(1,632)	1,363,422

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 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 £24m (2014 £22m).

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

4 Risk and capital management *continued*

Currency risk

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

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

	Pound Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Net assets 31 December 2015	452,128	(2,142)	(8,949)	(149)	440,888
Net assets 31 December 2014	483,868	6,640	(3,243)	(211)	487,054

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 2015	195	(238)	814	(994)
Increase/(decrease) in net assets 31 December 2014	(604)	738	295	(360)

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 Board Risk Committee manages 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:

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

	2014			
	Total £000	0-1 year £000	2-5 years £000	More than 5 years £000
Technical provisions	886,727	353,325	410,121	123,281
Creditors	39,281	39,281	-	-
Total	926,008	392,606	410,121	123,281

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 wholly of share capital and retained earnings. 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, plus the net of tax claims equalisation reserve. As at 31 December available capital on this basis comprised £327m (2014 £384m).

The Company is subject to capital requirements imposed by both its regulator and rating agencies. The insurance company capital regime in the UK has moved to a Solvency II basis with effect from 1 January 2016. Under this regime the Company's capital requirement will be determined using the standard formula. The regulatory capital under Solvency II will not be materially different from that which existed under the previous ICA (Individual Capital Assessment) regime. 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.

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

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, Germany, Australia and New Zealand. 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 business.

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

	2015		2014 *restated*	
	Continuing operations £000	Run-off operations £000	Continuing operations £000	Run-off operations £000
Net premiums written	208,877	(41)	211,974	8
Net premiums earned	213,955	(21)	225,002	13
Allocated investment return	17,302	598	23,528	963
	231,257	577	248,530	976
Claims paid - gross amount	(264,595)	(8,904)	(188,663)	(18,591)
Claims paid - reinsurers' amount	85,814	17	7,329	933
Change in provisions for claims - gross amount	54,970	7,355	(39,522)	15,624
Change in provisions for claims - reinsurers' amount	(55,896)	(3,372)	57,511	776
Claims incurred, net of reinsurance	(179,707)	(4,904)	(163,345)	(1,258)
Net operating expenses	(95,984)	(379)	(95,860)	(577)
Claims equalisation reserve	3,890	-	(288)	-
Balance on the technical account	(40,544)	(4,706)	(10,963)	(859)
Investment income	32,339	691	35,305	1,144
Investment expenses and charges	(15,037)	(93)	(11,777)	(181)
	17,302	598	23,528	963
Allocated investment return transferred to the general business technical account	(17,302)	(598)	(23,528)	(963)
Other (charges)/income	(513)	205	537	80
Loss on ordinary activities before tax	(41,057)	(4,501)	(10,426)	(779)

Notes to the Financial Statements *continued*

6 Analysis of underwriting result

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

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

	2014 *restated*			
	Gross premiums written £000	Gross premiums earned £000	(Loss)/profit before tax £000	Net assets £000
By geographical segment				
United Kingdom	223,488	232,281	(13,292)	470,422
Republic of Ireland	24,899	25,279	4,048	6,519
Overseas branches in run-off	-	-	(1,961)	10,113
Total	248,387	257,560	(11,205)	487,054

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

(b) Analysis of gross direct written premiums

	2015 £000	2014 £000
Resulting from contracts concluded by the Company :		
In the EU member state of its head office	209,212	223,488
In other EU member states	25,142	24,899
	234,354	248,387

Notes to the Financial Statements *continued*

6 (c) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance

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

	2014				
	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance :					
Motor	19,556	20,556	(18,330)	(7,809)	(748)
Fire and other damage to property	89,069	91,908	(78,156)	(39,468)	23,634
Third party liability	126,751	133,726	(125,721)	(47,209)	14,716
Credit and Suretyship	374	381	76	(125)	(106)
Marine	12,038	9,935	(8,864)	(3,884)	(571)
Miscellaneous	599	1,054	(157)	3	(866)
	248,387	257,560	(231,152)	(98,492)	36,059

Commission payable in respect of direct insurance amounted to £29,031,000 (2014: £32,389,000).

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:

	2015	2014
	£000	£000
Motor	(8,089)	(2,836)
Fire and other damage to property	8,495	9,538
General liability	(1,010)	(20,828)
Marine	1,296	(608)
Miscellaneous	20	333
	712	(14,401)

8 Investment income

	2015	2014
	£000	£000
Income from investments	32,052	35,075
Gains on the realisation of investments	978	1,347
Interest on loan to fellow group undertaking	-	27
	33,030	36,449

9 Net operating expenses

	2015	2014
	£000	£000
Acquisition costs	33,210	36,627
Change in gross deferred acquisition costs	437	602
	33,647	37,229
Administrative expenses	63,330	61,263
Gross operating expenses	96,977	98,492
Reinsurance commissions and profit participation	(829)	(1,973)
Change in deferred reinsurance commission	215	(82)
	96,363	96,437

Notes to the Financial Statements *continued*

10 Investment expenses and charges

	2015	2014
	£000	£000
Investment management expenses	976	1,072
Losses on the realisation of investments	14,154	10,886
	15,130	11,958

11 Other income

	2015	2014
	£000	£000
Foreign exchange loss	(1,450)	(937)
Other income	1,142	1,554
	(308)	617

12 Loss on ordinary activities before tax

	2015	2014
	£000	£000
Loss on ordinary activities before tax is stated		
after crediting		
Income from fixed income investments	32,001	35,037
after charging		
Auditors' remuneration:		
Audit of these financial statements	174	174
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	3	3
Audit-related assurance services	59	59
Taxation compliance services	17	13

Notes to the Financial Statements *continued*

13 Remuneration of directors

	2015 £000	2014 £000
Directors' fees	116	116
Directors' emoluments	905	870
Compensation for loss of office	301	-
Company contributions to money purchase schemes	53	36

The salary and bonus of the highest paid director for the year was £290,408 (2014 £338,945) and the pension contribution to a money purchase scheme was £13,574 (2014 £22,582). Share options were not exercised in 2015 (exercised in 2014).

	Number of directors	
	2015	2014
Retirement benefits are accruing to the following number of directors:		
Money purchase schemes	4	3
Defined benefit schemes	-	-
The number of directors who exercised share options was	3	2
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***

	2015 £000	2014 £000
United Kingdom Corporation Tax		
United Kingdom Corporation Tax at 20.25% (2014 21.5%)	(994)	-
Adjustment in respect of prior periods	-	1,440
	(994)	1,440
Foreign tax		
Adjustment in respect of prior periods	-	540
Total current tax (credit)/charge	(994)	1,980
Deferred tax credit	(7,479)	(3,410)
Changes in deferred tax rate	1,315	-
Tax on loss on ordinary activities	(7,158)	(1,430)

Notes to the Financial Statements *continued*

14 Taxation *continued*

(b) *Tax included in Other Comprehensive Income*

	2015 £000	2014 £000
Deferred tax:		
Charge on currency translation gains	147	37
(Credit)/charge on unrealised (losses)/gains on investments	(1,899)	1,833
	(1,752)	1,870

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

The tax credit for the year is lower than (2014 charge - higher than) the standard rate of corporation tax in the UK:

	2015 £000	2014 £000
Loss on ordinary activities before tax	(45,558)	(11,205)
Tax using the corporation tax rate of 20.25% (2014 21.5%)	(9,226)	(2,409)
Tax losses carried forward	8,232	2,409
Deferred tax credit relating to current year tax losses	(7,479)	(2,242)
Deferred tax credit relating to prior year tax losses	-	(1,168)
Deferred tax charge relating to change in tax rate for prior year tax losses	1,315	-
Adjustment to prior year current tax - group relief	-	1,440
Adjustment to prior year current tax in previous years - foreign tax expensed	-	540
Total tax credit	(7,158)	(1,430)

As at 31 December 2015 the Company has tax losses carried forward of £132,006,000 (2014 £81,847,000).

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

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

15 Investments

(a) *Fair value*

	Fair Value **2015** £000	Fair Value 2014 £000	Cost **2015** £000	Cost 2014 £000
Debt and other fixed income securities	1,100,881	1,163,396	1,110,937	1,163,132
Included in debt and other fixed income securities:				
UK fixed income securities	501,709	563,525	506,262	565,807
Overseas fixed income securities	599,172	599,871	604,675	597,325
	1,100,881	1,163,396	1,110,937	1,163,132

Notes to the Financial Statements *continued*

15 Investments *continued*

(b) Movement in the year

	2015 £000	2014 £000
Investments brought forward	1,163,396	1,222,378
Purchases	327,434	280,911
Fair value adjustments	(10,322)	9,167
Disposals/maturities	(372,650)	(338,695)
Currency translation movements	(6,977)	(10,365)
Investments carried forward	1,100,881	1,163,396

(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 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Prices based on recent transactions in identical assets (either unadjusted or adjusted);
- Level 3 - Prices determined using a valuation technique.

The Company utilised a pricing service to estimate the fair value of its investments at both 31 December 2015 and 31 December 2014.

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. 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.

The following table present the level within the fair value hierarchy at which the Company's investments are categorised:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets as at 31 December 2015	-	1,100,881	-	1,100,881
Financial assets as at 31 December 2014	-	1,163,396	-	1,163,396

Notes to the Financial Statements *continued*

16 Debtors arising out of insurance operations

	2015 £000	2014 £000
Amounts owed by intermediaries	29,256	36,657
Amounts owed by policyholders	-	405
	29,256	37,062

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

	2015 £000	2014 £000
Amounts owed by reinsurers	7,806	2,969

18 Other debtors

	2015 £000	2014 £000
Amounts owed by group undertakings	17	-
Tax recoverable	270	2,651
Other debtors	372	140
	659	2,791

19 Deferred tax asset

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

	2015		2014	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Tax losses carried forward	24,295	-	16,369	-
Expense provision	97	-	107	-
	24,392	-	16,476	-

(b) ***Movement in provided deferred tax***

	2015 £000	2014 £000
Deferred tax asset brought forward	16,476	14,936
Tax losses carried forward	9,232	1,539
Foreign exchange revaluation of opening provision	(1)	1
Effect of rate change on deferred tax asset brought forward	(1,315)	-
Deferred tax asset carried forward	24,392	16,476

The tax losses carried forward have no time limit.

The net reversal of deferred tax expected to occur next year is £1,867,000, relating to the release of tax losses carried forward of £9,700,000.

Notes to the Financial Statements *continued*

20 Called up share capital

	2015 £000	2014 £000
Allotted, called up and fully paid		
203,822,115 (2014 203,822,115) ordinary shares of £1 each	203,822	203,822

21 Equalisation Provisions

Equalisation provisions are established in accordance with the requirements of Chapter 1.4 of the Prudential Source Book of Insurers. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Companies Act 2006 to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of decreasing shareholders' funds by £13,140,000 (2014: £17,030,000) before tax. The movement in the equalisation provisions during the year resulted in a decrease in the general business technical account loss and decrease in the loss before taxation of £3,890,000 (2014 increase in the loss before tax of £288,000).

22 Technical provisions and deferred acquisition costs

(a) *Unearned premium reserve*

	2015		2014	
	£000	£000	£000	£000
Gross				
At the start of the year		128,694		138,421
Premiums written	234,354		248,387	
Premiums earned	(242,079)		(257,560)	
Changes in unearned premium		(7,725)		(9,173)
Currency translation differences		(354)		(554)
At the end of the year		120,615		128,694
Reinsurance amount				
At the start of the year		(11,375)		(7,525)
Premiums written	(25,518)		(36,405)	
Premiums earned	28,145		32,545	
Changes in unearned premium		2,627		(3,860)
Currency translation differences		(1)		10
At the end of the year		(8,749)		(11,375)

Notes to the Financial Statements *continued*

22 Technical provisions and deferred acquisition costs *continued*

(b) *Claims outstanding*

	2015 £000	2014 £000
Gross		
At the start of the year	741,003	728,952
Claims paid	(273,499)	(207,254)
Movement in claims incurred but not reported	11,446	34,966
Movement in claims outstanding	200,586	197,034
Movement in ULAE	(858)	(848)
Currency translation differences	(7,558)	(11,847)
At the end of the year	671,120	741,003
Reinsurance amount		
At the start of the year	(122,351)	(65,537)
Claims paid	85,831	8,262
Movement in claims incurred but not reported	44,529	(35,979)
Movement in claims outstanding	(71,092)	(30,570)
Currency translation differences	790	1,473
At the end of the year	(62,293)	(122,351)

(c) *Deferred acquisition costs*

	2015 £000	2014 £000
Gross		
At the start of the year	(13,839)	(14,524)
Movement in provision	437	602
Currency translation differences	40	83
At the end of the year	(13,362)	(13,839)
Reinsurance amount		
At the start of the year	99	181
Movement in provision	215	(82)
Currency translation differences	2	-
At the end of the year	316	99

(d) *Equalisation expense*

	2015 £000	2014 £000
At the start of the year	17,030	16,742
Movement in provision	(3,890)	288
At the end of the year	(13,140)	17,030

Notes to the Financial Statements *continued*

23 Analysis of insurance claims provisions

(a) *Loss development tables*

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an accident year basis. In presenting this information for the first time, the Company has taken advantage of the transitional arrangements incorporated in FRS 103 and accordingly is presenting the data for the last five accident years only, and not the full ten years normally required by FRS 103. Balances have been translated at exchange rates prevailing at 31 December 2015.

Gross loss development table

Accident year	All prior years	2011	2012	2013	2014	2015	**Total**
Current estimate of gross ultimate claims	£000	£000	£000	£000	£000	£000	£000
At end of accident year	-	167,492	148,301	179,588	193,225	205,302	893,908
One year later	-	167,125	148,371	172,098	206,595	-	694,189
Two years later	-	174,577	145,355	165,644	-	-	485,576
Three years later	-	189,549	145,662	-	-	-	335,211
Four years later	-	184,375	-	-	-	-	184,375
Estimate of gross ultimate claims	-	184,375	145,662	165,644	206,595	205,302	907,578
Cumulative claims payments to date		(143,740)	(91,069)	(74,797)	(110,996)	(43,581)	(464,183)
Claims liability outstanding	203,839	40,635	54,593	90,847	95,599	161,721	647,234
ULAE							23,886
Gross claims outstanding							671,120

Net loss development table

Accident year	All prior years	2011	2012	2013	2014	2015	**Total**
Current estimate of net ultimate claims	£000	£000	£000	£000	£000	£000	£000
At end of accident year	-	158,499	137,727	153,279	141,357	176,746	767,608
One year later	-	160,604	140,846	148,226	146,084	-	595,760
Two years later	-	170,109	138,356	147,135	-	-	455,600
Three years later	-	177,476	139,729	-	-	-	317,205
Four years later	-	174,024	-	-	-	-	174,024
Estimate of net ultimate claims	-	174,024	139,729	147,135	146,084	176,746	783,718
Cumulative claims payments to date		(133,964)	(90,138)	(70,702)	(56,694)	(28,268)	(379,766)
Claims liability outstanding	180,989	40,060	49,591	76,433	89,390	148,478	584,941
ULAE							23,886
Net claims outstanding							608,827

Notes to the Financial Statements *continued*

24 Creditors arising out of direct insurance operations

	2015	2014
	£000	£000
Amounts owed to intermediaries	3,776	5,153
Amounts owed to policyholders	162	-
	3,938	5,153

25 Other creditors including taxation and social security

	2015	2014
	£000	£000
Insurance premium taxes	4,137	3,869
Amounts owed to group undertakings	14,898	13,118
Tax payable	-	168
Other creditors	63	141
	19,098	17,296

26 Accruals and deferred income

	2015	2014
	£000	£000
Reinsurers' share of deferred acquisition costs	316	99
Accrued expenses	3,574	4,193
	3,890	4,292

27 Related party transactions

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

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

28 Commitments and Contingent Liabilities

In the normal course of business letters of credit to the value of £50,892 (2014 £48,129) 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 of £1,234,800 and £1,855,600 per annum respectively. These leases expire in 2016 and 2018 respectively.

Acting as a third party depositor under a trust deed executed in 2013, the Company has deposited £100,000,000 (2014 £100,000,000) in bonds with Lloyd's as security for the underwriting activities of its affiliate companies Aprilgrange Limited and F&G UK Underwriters Limited. The fees attaching to this security and earned by the Company were £1,000,000 (2014 £1,092,603).

Travelers has a pension scheme in the UK providing benefits based on final pensionable pay. This scheme was frozen with effect from 1 April 2003. Travelers Management Limited currently bears responsibility for meeting any funding requirements of this scheme. In the event that Travelers Management Limited was not able to fulfil the obligations, responsibilities would fall to Travelers Insurance Company Limited. The updated valuation for FRS 102 as at 31 December 2015 identified a deficit of £973,000 (2014 deficit of £4,431,000).

Notes to the Financial Statements *continued*

29 Immediate and ultimate parent company

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

30 Affiliate company guarantee

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

31 Investments in Group Undertakings

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

Under the Companies Act 2006 Section 401, for accounting periods beginning or after 1st January 2005 an exemption from preparing consolidated accounts is available, subject to certain conditions. Following an assessment of these conditions it is considered appropriate for the Company to take advantage of the exemption from preparing consolidated accounts and therefore these financial statements are for the Company only. Travelers Professional Risks Limited has therefore not been consolidated in these accounts. Travelers Professional Risks Limited had net assets at 31 December 2015 of £434,538 (2014 £394,665).

32 Transition to FRS 102

The Company transitioned to FRS 102, new UK GAAP, from existing UK GAAP as at 1 January 2015. Figures for the comparative period have been presented on the new basis. On transition the Company elected to apply IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU) and has designated its financial investments as available for sale. The impact of applying IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU) and recognising financial investments as available for sale is that the unrealised gains and losses on investments are now shown through the statement of comprehensive income rather than through the profit and loss. There was no impact on total equity as at 1 January 2014 or 31 December 2014, however, the unrealised gains and losses on investments are now recognised in the revaluation reserves within equity. The impact of this change in accounting policy on the reported 2014 result is set out below.

Loss for the financial year

	2014 £000	2014 £000
As previously reported		(2,441)
Unrealised gain on available for sale investments recognised in other comprehensive income	(9,167)	
Tax on unrealised gains	1,833	
		(7,334)
As restated		(9,775)

Opening equity at 1 January 2014

	Share capital £000	Share premium £000	Profit and loss account £000	Revaluation reserve £000	Total equity £000
As previously reported	203,822	699	284,832	-	489,353
Transfer aggregated unrealised losses on investments to revaluation reserve	-	-	8,902	(8,902)	-
As restated	203,822	699	293,734	(8,902)	489,353

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

We have audited the financial statements of Travelers Insurance Company Limited, (the "Company") for the year ended 31 December 2015 set out on pages 7 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 Part 16 of the Companies Act 2006. The nature of equalisation provisions, the amounts set aside at 31st December 2015 and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit and loss before tax, are disclosed in note 21.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its loss for the year then ended; -
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Jonathan Bell
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

23 March 2016

TRAVELERS

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