TRAVELERS

TRAVELERS INSURANCE COMPANY LIMITED

Solvency and Financial Condition Report 2016

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Travelers Insurance Company Limited ("The Company") is a United Kingdom regulated entity authorised to carry out general insurance business. The ultimate parent company, The Travelers Companies, Inc. ("Travelers") is a leading provider of property and liability insurance based in the United States. The group has more than 30,000 employees and over 150 years' experience in the insurance industry. Travelers is traded on the New York Stock Exchange as "TRV", and is one of the 30 select companies that comprise the Dow Jones Industrial Average. As at 31 December 2016, Travelers reported total assets of US$ 100.2 billion (2015: $100.18 billion) and shareholders' equity of US$ 23.2 billion (2015: 23.6 billion).

The Company was incorporated in 1971 as the St. Katherine Insurance Company Limited. In 1988, St. Katherine was acquired by The St. Paul Companies, Inc., and was gradually integrated into The St. Paul's existing UK-based insurance operations. In 2004, The St. Paul Companies Inc., and The Travelers Companies, Inc., merged to form The St. Paul Travelers Companies, Inc. In 2007, the Company's name was changed to Travelers Insurance Company Limited.

In 2016, the Company wrote commercial lines insurance in the United Kingdom and, through its branch in Dublin, in Ireland. The Company also covered risks located outside of the UK and Ireland, on a freedom of service basis (in the EEA), or by facultative reinsurance (outside of the EEA), generally in support of its UK and Irish based insureds.

The Company is a provider of insurance solutions targeted at specific customer groups where it can add value with tailored insurance coverage or specific claims handling and risk management expertise. The Company's major target customer groups include technology, healthcare and automotive companies, local authorities, property owners, solicitors, financial institutions, and large corporate insureds. During 2016 the Company started writing United Kingdom and other European surety business which previously had been written by another group company in the UK and also started distributing insurance policies on a direct basis to small commercial insureds (micro enterprises).

Travelers' European based operations offer our customers a wide range of cover through the Company, Travelers Syndicate Management Limited (the Managing Agent of Syndicate 5000 of Lloyd's) and Travelers Underwriting Agency Limited. The Scope of this Solvency and Financial Condition Report ("SFCR") is Travelers Insurance Company Limited and business written by the Company only will be relevant to this document.

Performance

The Company produces its financial statements in accordance with UK GAAP FRS 102. The Company reported a loss of £8.4m as at 31 December 2016 (2015: loss of £38.4m). The 2016 result was heavily influenced by a £50m reserve charge following the Lord Chancellor's decision to reduce the discount rate applied to bodily injury claims.

System of Governance

The Company understands the importance of effective corporate governance, together with a system of internal control that provides relevant information to the Board.

The Company's Board comprises ten directors, four of whom are independent non-executive directors. The Board has two constitutional committees, the Audit Committee and the Risk and Remuneration Committee, the members of both of which are the independent non-executive board directors. The Board and each committee have clear Terms of Reference. Executive management is undertaken by the Senior Leadership Team ("SLT"), comprising 10 senior managers who effectively run the Company. The SLT reports to the Board on a quarterly basis. Governance over other aspects of the Company's activities is within the scope of the Executive Risk committee, the Finance committee, the Underwriting committee, and certain panels which have specific terms of reference. Each Committee and Panel is governed by its own terms of reference. The Company ensures that all persons who effectively run the Company, or hold key functions, are fit and proper to undertake their roles. The Company assesses the fitness and propriety of persons performing key functions on an ongoing basis. In addition, the Company has an annual performance assessment process which measures performance against minimum competencies required for those persons effectively running the Company.

The Company's remuneration policy reflects the Company's commitment to achieve a consistent remuneration process and to promote effective risk management.

The Company's risk strategy is articulated in a risk management framework, as well as a number of policies, frameworks and processes which operate across the three lines of defence. The "three lines of defence" model aims to ensure that responsibilities for the risk strategy are operated effectively.

Executive Summary *continued*

First Line of Defence – Business Management. Risk owners, embedded within business operations, make up the first line of defence and are responsible for the day to day management of risk on a continuous basis, as well as delivering this strategy and optimising performance according to a pre-agreed risk appetite.

Second Line of Defence – Oversight. The second line of defence primarily comprises the Risk Management, Actuarial and Compliance functions, which provide independent assurance to the Board with regard to the adequacy and effectiveness of risk management practices.

Third line of defence – Assurance. The third line of defence comprises internal audit, providing an independent and balanced view of the effectiveness of the first and second line functions. The third line of defence has direct access to the Board and is independent of management.

The internal control system is designed to ensure that the Company achieves its objectives through operational effectiveness and efficiency, robust financial reporting and compliance with rules, regulations and policies. The tone for the control environment is set by the Company's parent, the board of directors and the SLT, who are all committed to a culture of management integrity, transparency and honesty, and who attribute high importance to the establishment and maintenance of a strong system of internal controls. A key aspect of the internal control framework is a robust risk management framework that ensures strong processes exist for risk identification, risk measurement and risk monitoring, and that ensures appropriate risk mitigation strategies are in place. Internal controls are documented in the risk control policies and the accompanying policies and procedure documents. The operation of these internal controls and risk identification processes is monitored by the four control functions, namely the Compliance function, the Internal Audit function, the Actuarial function and the Risk Management function.

Risk Profile

Underwriting Risk is the major risk to which the Company is exposed and is the major driver of its capital requirements. Underwriting risk is managed by the Underwriting Committee, comprising senior underwriting staff as well as members of the actuarial, reinsurance, and claims functions. The Committee ensures adherence to the Board determined 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 with no over exposure in any one industry, line of business or geographical region.

Market Risk is managed by a conservative investment risk appetite, and an investment strategy that is limited to high quality government and corporate fixed interest securities. Credit Risk is managed through the thoughtful analysis and selection of individual counterparties and the use of limits and managed exposures to individual counterparties. The Company has no material liquidity risk exposure.

Operational risks are reviewed quarterly and linked to the Company's ORSA through performance of the risk and control self-assessment process facilitated by the Risk Management function.

Valuation for Solvency purposes

The valuation of assets and liabilities on a Solvency II and UK GAAP basis as at 31 December 2016 is summarised opposite.

The excess of assets over liabilities is lower on a Solvency II basis than under UK GAAP. This largely reflects the fact that the adjustments required to put technical provisions onto an economic basis offset the benefit of the release of the reserve margin carried under UK GAAP.

	Solvency II	UK GAAP	Difference
	£ 'm	*£ 'm*	*£ 'm*
Assets	1,212.3	1,285.0	(72.7)
Gross Technical Provisions	770.1	801.9	31.8
Other Liabilities	21.6	46.3	24.7
Excess of Assets over Liabilities	420.6	436.8	(16.2)

Capital Management

The Company uses the Solvency II Standard Formula to calculate its regulatory Solvency Capital Requirement ("SCR"). The Company does not use any undertaking specific parameters. The amount of the Company's SCR as at 31 December 2016 was £313.2m. The Company was in compliance with its regulatory capital requirements throughout 2016, as at 31 December 2016 and through to the date of this report.

A. Business and Performance

A.1 Business

Name and legal form of the undertaking

Travelers Insurance Company Limited “the Company”) is a company limited by shares and is incorporated in England. Its registered office address is Exchequer Court, 33 St Mary Axe, London, EC3A 8AG.

Organisational group structure

The Travelers Companies, Inc. (TRV) is a holding company principally engaged, through its subsidiaries, in providing a wide range of commercial and personal property and casualty insurance products and services to businesses, government units, associations and individuals. TRV is incorporated as a general business corporation under the laws of the state of Minnesota and is one of the oldest insurance organizations in the United States, dating back to 1853. The principal executive offices of TRV are located at 485 Lexington Avenue, New York, New York 10017. TRV also maintains executive offices in Hartford, Connecticut, and St. Paul, Minnesota.

TRV is both the immediate and ultimate parent undertaking and controlling party of the Company and provides 100% of its capital. TRV is also the immediate and ultimate parent undertaking of Travelers’ Syndicate Management Limited, which manages Travelers Syndicate 5000 at Lloyd’s. The Syndicate’s capital is provided by two corporate capital providers, F&G UK Underwriters Limited and Aprilgrange Limited. TRV is the immediate and ultimate parent undertaking and controlling party of both capital providers.

Travelers Casualty and Surety Company of Europe Limited (TCSCE) is an authorised insurance company based in the UK. TRV is the ultimate parent undertaking of TCSCE. Travelers Underwriting Agency Limited (TUAL) is an authorised intermediary based in the UK. TRV is the ultimate parent undertaking of TUAL which, as an intermediary, has no regulatory capital requirements.

Name and contact details of the supervisory authority responsible for the financial supervision of the undertaking and the group

The Prudential Regulatory Authority (“PRA”) in the UK is responsible for the prudential supervision of the Company. The Financial Conduct Authority (“FCA”) in the UK is responsible for the conduct supervision of the Company. The PRA can be contacted at Bank of England, Threadneedle St, London, EC2R 8AH United Kingdom, and the FCA at 25 The North Colonnade, London E14 5HS, United Kingdom.

The Company is a member of a group based in the United States of America, which is not an equivalent country for Solvency II group supervision. On 31 December 2015, the Company received a direction given by the PRA under section 138A of the Financial Services and Markets Act 2000, which took effect on 1 January 2016 and which ends on the earlier of: (i) the date the relevant rule is revoked or no longer applies to the firm (in whole or in part); or (ii) 31 December 2018. The direction modifies Rules 20.1 and 20.2 (Group Supervision) of the PRA Rulebook and requires that the Company provides the PRA with certain information.

The State of Connecticut Insurance Department (“Connecticut Insurance Department”) is the designated group-wide supervisory authority for The Travelers Companies, Inc. (“Travelers”) pursuant to the Connecticut Insurance Holding Company System Regulatory Act. The Connecticut Insurance Department can be contacted at 153 Market St, Hartford, CT 06103, USA.

Based on the amount of business Travelers conducts outside of the United States, the Connecticut Insurance Department considers Travelers to be an internationally active insurance group (IAIG). Approximately 96% of Travelers’ consolidated group assets and statutory capital and surplus are held by U.S. domiciled insurance companies. The Connecticut Insurance Department directly regulates approximately 98% of the total U.S. domiciled insurer assets of Travelers. As part of its group-wide regulatory requirements, the Connecticut Insurance Department monitors the group’s financial results and conducts financial analysis at both the group and legal entity level. Additionally, the Connecticut Insurance Department conducts financial examinations of the insurance subsidiaries over which it has direct regulatory authority. The Connecticut Insurance Department receives annual Holding Company filings at the group level with extensive disclosure of Travelers group and subsidiary activities, and governance, including notice or approval of transactions with affiliates, depending on the materiality of such transactions. The Connecticut Insurance Department hosts and leads a supervisory college of Travelers and coordinates the participation of insurance supervisors from the jurisdictions where the group has insurance operations, including the PRA. As part of the Connecticut Insurance Department’s requirements pertaining to enterprise risk management, the Department requires the annual filing of a group ORSA and conducts an analysis of the ORSA, including discussions with the group’s management.

A. Business and Performance *continued*

Material lines of business and geographical area
The Company writes commercial lines insurance in the United Kingdom, and in the Republic of Ireland through its branch located in Dublin. The Company wrote personal lines business in Ireland until 2011. The Company also covers risks located outside of the UK and Ireland, on a freedom of services basis (in the EEA) or by facultative reinsurance (outside of the EEA), generally in support of its UK and Irish based insureds. The Company also has branches in the Netherlands, France and Germany that have been in run-off since 2001. Approximately 14% of the Company's 2016 gross premiums were written in Ireland.

The Company continues to be a provider of insurance solutions targeted at specific customer groups where it can add value with tailored insurance coverage or specific claims handling and risk management expertise. The Company's major target customer groups include technology, healthcare and automotive companies, local authorities, property owners, solicitors, financial institutions and large corporate insureds. There were no material changes in the significant lines of business that the Company writes, nor in the countries in which it writes them, during 2016.

Significant business or other events
During the year, the Company started to distribute insurance policies on a direct basis to small commercial insureds. All marketing and development costs are borne by an affiliated group undertaking. As a result the impact of this initiative on this Company's results during the year was immaterial.

Also during the year the Company started writing UK and other European surety business, which previously had been written by another group company in the UK. The volumes are modest and all this business is 100% reinsured to an affiliated group undertaking in the United States. As a result the impact on this Company's results during the year was immaterial.

On 23 June 2016, voters in the United Kingdom voted for the UK to leave the European Union. The Company is monitoring political and legislative developments. In particular, the Company is monitoring the development of any risks to its solvency inherent in the UK's exit from the EU.

The Company, together with its parent organisation, is developing a Brexit contingency plan. In addition, Travelers has the benefit of participation in an international network of insurers that enables seamless fronting across the EEA, as well as Travelers' Lloyd's platform. In this way, the Company will seek to ensure that our customers with risks across the EU will continue to be covered by the Company's insurance policies.

In February 2017, after the 2016 year end, the Lord Chancellor announced a reduction in the discount rate applied to lump-sum bodily injury claims, known as the Ogden rate, from 2.5% to minus 0.75%. The Company has evaluated the impact on its claims reserves of applying the revised discount rate to relevant claim settlements. As a result, the Company has booked a pre-tax charge of £50m net of reinsurance into its 2016 results.

Performance
The UK commercial lines marketplace remains very competitive. The Company has seen modest low single digit rate increases on its UK portfolio during the year. In Ireland, the market has hardened significantly during the year.

The Company, before taking account of the charge booked for the revised personal injury discount rate, reported an improved result for 2016, with a combined ratio of 97.7% (2015: 131.4%) and a profit for the year after tax of £32.9m (2015: loss of £46.2m). This result reflects an absence of weather losses in 2016 (2015: £23m loss), a much reduced frequency of large losses and increased favourable prior year reserve development of £25.5m (2015: £0.7m). In addition the result benefitted from unrealised investment gains of £5.6m (2015: loss of £10.3m) and the one-off release of claims equalisation reserves on the introduction of Solvency II of £13.1m (2015: provision movement of £3.2m favourable). After taking account of the revised personal injury discount rate, the combined ratio became 123.3% and the Company reported a loss for 2016 of £8.4m.

A. Business and Performance *continued*

Material related party transactions

Outside of the small commercial launch and the new surety business, there were no new material related party transactions during the year. The Company puts some investments on deposit with Lloyd's to support the underwriting capital requirements of Syndicate 5000, the capital providers for which are wholly owned affiliated group undertakings. The amount of such investments the Company had placed on deposit reduced during the year by £21m to £79m, and subsequent to the year end by a further £50m. A modest amount of reinsurance continues to be provided by an affiliated group undertaking in the United States. All expenses and salary costs continue to be borne in the first instance by the group's UK management services company, Travelers Management Limited, and some services are provided by affiliated group companies in the US to Travelers Management Limited for the benefit of the Company pursuant to an intercompany services agreement. Investment management is outsourced to The Travelers Indemnity Company, an affiliated group company. No distribution has been made to the shareholder during the year, or is proposed as at the year end.

External auditor

The Company's external auditor is KPMG LLP.
The contact details of KPMG LLP are 15 Canada Square, Canary Wharf, London E14 5GL.

A.2 Underwriting performance

The Company's results for the year on a UK GAAP reporting basis were as follows:

	2016	2015	Change
	£'m	*£'m*	*£'m*
GWP	221.5	234.4	(12.9)
NWP	191.0	208.8	(17.8)
NEP	195.7	214.0	(18.3)
Incurred claims	(148.6)	(184.6)	36.0)
Operating expenses	(92.8)	(96.4)	3.6
Underwriting Result	(45.7)	(67.0)	21.3
Loss Ratio	75.9%	86.3%	10.4
Expense Ratio	47.4%	45.1%	(2.3)
Combined Ratio	**123.3%**	**131.4%**	**8.1**

The Company reported a £45.7m underwriting loss in 2016 (2015: £67.0m underwriting loss) and a 123.3% combined ratio (2015: 131.4%). This result reflects the impact of the announcement from the Lord Chancellor in February 2017 of the change in the discount rate used for bodily injury claims from 2.5% to minus 0.75%. Excluding the impact of the adjustment for the revised discount rate, the Company would have reported a 97.7% combined ratio and a £32.9m post tax profit. The charge arising from the revised discount rate amounted to £50.0m pre-tax and £42.6m post-tax. The significant improvement in the underlying result over the prior year reflected increased prior year reserve releases, before the revision of the discount rate, of £25.5m (2015: £0.7m), more favourable weather experience following the December storms of 2015 which cost the Company £23m, and a lower incidence of large losses.

Of the £50m charge arising from the revised discount rate, £46.2m related to prior accident years, and almost 66% related to certain books of business the Company has exited and are now in run off. Consequently, the revision to the discount rate should not have a significant impact on the Company's results going forward.

Gross written premiums reduced by 5.6% to £221.5m (2015: £234.4m). The major driver of this reduction was the non-renewal of certain large accounts where the underwriting profitability was poor and the Company was unable to secure the necessary changes to terms and conditions to address this. Renewal retention was down in 2016 due to these large accounts. Rate change was modestly positive at 2.5% and new business levels were broadly consistent with 2015. Net written premiums were down by more than gross written premiums, reflecting reinstatement premiums incurred on large losses during the year.

A. Business and Performance *continued*

Information on underwriting performance by material line of business and material geographical areas over the reporting period can be found at Form S.05.01.02 and Form S.05.02.01 respectively within the quantitative returns in the Appendix to this report.

Gross written premiums in the Company's branch in Ireland increased by £7.0m, or 27.9%, to £32.1m (2015: £25.1m). In underlying currency terms the increase was 14.3%. The increase was largely driven by rate increases as the market hardened. Gross written premiums in the UK fell by 9.4% to £189.4m (2015: £209.3m) as a result of underwriting actions.

Information on underwriting performance by material line of business, and material geographical areas over the reporting period can be found at Form S.05.01.b.N and Form S.05.02.b.N respectively within the quantitative returns in the Appendix to this report.

A.3 Investment performance

During the year the Company continued to invest wholly in high quality government and corporate bonds. These are considered as a single asset class and are managed together. The total investment return for the year increased by £23.7m to £31.4m (2015: £7.7m). The investment return for the 12 months to 31 December 2016 was as follows:

	2016	2015	Change
	£'m	*£'m*	*£'m*
Investment income	30.8	32.1	(1.3)
Realised investment gains	1.2	1.0	0.2
Realised investment losses	(5.2)	(14.1)	8.9
Unrealised investment gains /(losses)	5.6	(10.3)	15.9
Investment expenses	(1.0)	(1.0)	-
Total investment return	31.4	7.7	23.7

Realised investment losses arose as bonds bought above par value have subsequently matured. The quantum of this, however, was much reduced during 2016. The unrealised investment gains during 2016 arose as market expectations of interest rate movements changed from expecting imminent increases to expecting rates to stay at their historical lows through until at least 2017. In 2015 the unrealised losses reflected the expectation of imminent increases.

Unrealised investment gains/(losses) were reported directly in equity on a UK GAAP basis. No investments in securitisations were made in either period. The investment portfolio does not include any shares in any other Travelers group entity. Management of the investment portfolio is outsourced to an affiliated group undertaking, The Travelers Indemnity Company. Investment portfolios are managed in accordance with the investment guidelines set out in the Company's Investment and Market Risk Policy, which is approved by the Company's Board. Investment reviews with the investment manager are conducted quarterly by the Finance Committee.

A.4 Performance of other activities

Following the introduction of Solvency II, the requirement for claims equalisation reserves were removed with effect from 1 January 2016. The 2016 financial statements have benefitted from the release of £13.2m of claims equalisation reserves carried as at 31 December 2015. In 2015 the result benefitted from a release in the reserves during the year of £3.2m. There were no other material items of Other Income or Expenses, either during the year or during the prior period.

A.5 Any other information

During the year the Company produced a total comprehensive loss on a UK GAAP basis of £4.0m (2015 loss of £46.2m). Shareholders' funds reduced from £440.9m to £436.9m. Own Funds on a Solvency II basis as at 31 December 2016 were £420.6m. The Company's capital position on a Solvency II basis is discussed further in Section E of this report.

B. System of Governance

B.1 General information on the system of governance

B.1.1 Governance structure

Overall governance and oversight is provided by the Company's Board, which comprises ten directors. Four of the directors are independent non-executive directors. Three directors are non-executive (including the Chairman) and the remaining three directors are executive directors.

The responsibilities of the Board are set out in the "Matters Reserved for the Board" document and fall within the following headings:

- Strategy and Management
- Structure and capital
- Financial reporting and controls
- Oversight of Control Functions
- Contracts and Transactions
- Borrowings
- Board membership and other appointments
- Remuneration
- Delegation of Authority
- Corporate governance matters

The Board has two constitutional committees: the Audit Committee, and the Risk and Remuneration Committee. Each Board committee has four members, and the committee members are comprised of the independent non-executive directors.

The Board Audit Committee has the following broad responsibilities:

- Review, discuss, and challenge where necessary, with management and the external auditors, the annual financial statements before submission to the Board.
- Review actuarial and any internal or external auditor's reports on the Company's reserve position
- Consider and recommend the appointment of the external auditors
- In consultation with the independent auditors, management and the internal auditors, review the integrity of the Company's financial reporting processes, as well as any audit problems or other difficulties encountered by the auditors in the course of the audit process and management's responses to such matters
- Review the reports submitted and evaluate the adequacy of the work performed by internal audit
- Review and discuss periodically, with relevant legal counsel, any legal matter that could have a significant impact on the Company's financial statements
- Consider the Company's procedures for handling allegations from whistleblowers.

The Board Risk and Remuneration Committee has the following broad responsibilities In respect of risk:

- Oversee the Company's enterprise risk management programme and ensure the establishment and maintenance of appropriate systems, procedures and controls, including the Company's risk appetite and strategy and the carrying out of the Own Risk and Solvency Assessments at appropriate times;
- Review the policies and procedures of the Company and review specific operational segments of the Company that may be posing unusual significant risks that could have a material impact on the risk profile of the Company.
- Monitor that all issues identified in the Risk Register, or through other reports, are being addressed.
- Receive external auditors' reports, management letters, reports from regulators or any other relevant source regarding weaknesses in internal procedures and controls and ensure that management addresses any issues that arise.

B. System of Governance *continued*

The Board Risk and Remuneration Committee has the following broad responsibilities In respect of remuneration:

- Review and approve the Company's general compensation philosophy and objectives, and recommend to the Board the approval of Company compensation and benefit programmes determined by the Committee to be appropriate.
- Ensure that appropriate policies and procedures are in place to ensure that compensation plans are properly administered by the responsible individuals and management committees in accordance with the terms of the plans.
- Review the Company's regulatory compliance with respect to compensation matters, including ensuring that the Company's compensation philosophy, objectives and procedures are consistent with applicable regulatory aims concerning the avoidance or minimisation of undue risk and inappropriate staff behaviours.

At an executive level, the Company is managed by a Senior Leadership Team (SLT), comprising ten senior managers who effectively run the Company. These are: Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk and Administrative Officer, Head of HR, Chief Actuary, General Counsel, Head of Business Insurance, Head of Bond and Specialty Insurance, and Head of the Company's Lloyd's Operation. The SLT meets two to three times each month and is chaired by the CEO. The SLT reports on a quarterly basis to the Board. In addition, the CEO is also a member of the Board and presents a CEO's report to the Board which includes details of matters discussed by the SLT. The SLT considers the following matters on a regular and continuous basis:

(i) ongoing management and review of progress against the Company's strategy as approved by the Board;

(ii) monitoring of the Company's trading results and financial position;

(iii) review of the Company's operations and functions;

(iv) review of the talent within the Company;

(v) management of special projects;

(vi) reporting to the Company's parent company.

Governance over the Company's financial risks is provided by the Finance Committee, chaired by the Chief Financial Officer, which meets on a quarterly basis. The Chief Financial Officer reports monthly to the SLT on financial performance and risks, and quarterly to the Board Audit Committee and the Board.

Governance over the Company's risk management is provided by the Executive Risk Committee (ERC), chaired by the Chief Risk and Administrative Officer, which meets on a quarterly basis. The Chief Risk and Administrative Officer reports monthly to the SLT and quarterly to the Board Risk & remuneration Committee and to the Board.

Governance over insurance products is provided by the European Product Council (EPC), chaired by the Chief Actuary and which meets monthly. Customer challenge of high product risk insurance products is provided by the Product Oversight Group, chaired by the Compliance Manager and which meets on an ad hoc basis, but at least once per quarter. The Chief Actuary reports monthly to the SLT and quarterly to the Board.

Governance over underwriting matters is provided by the Underwriting Committee, chaired by one of the Chief Underwriting Officers (CUO), which meets monthly. Underwriting performance is reported monthly to the SLT and quarterly to the Board.

The governance structure includes various committees and panels relating to specific activities.

Governance over management of the claims function is provided by the Claims Executive Management Team (EMT). Decisions relating to reinsurance activities are made by the Underwriting Committee. Decisions relating to reserving are considered by the Finance Committee. The interrelationship of various committees and panels is set out on a governance structure chart. This system of governance is subject to regular internal review by the ERC.

The European Product Council was newly created during 2016. In addition, during 2016, the existing Executive Committee was replaced by the SLT and the existing Underwriting Risk Committee was replaced by the Underwriting Committee, with a broader scope covering underwriting matters as well as underwriting risks. There were no other material changes to the governance structure during 2016.

B. System of Governance *continued*

B.1.2 Remuneration Policy

The Company has adopted a Remuneration Policy which was approved by the Board and the ERC. The purpose of the Remuneration Policy is to define the minimum standards, and roles and responsibilities, relating to remuneration of employees within the Company. The policy reflects the Company's commitment to achieve a consistent remuneration process and to promote effective risk management. The Remuneration Policy states that the Company is committed to measuring both the actual performance and the underlying level of risk assumed to achieve that performance. As to risk mitigation, all planned individual compensation actions, including fixed and variable elements are reviewed in a robust and disciplined manner internally at several layers of management, in addition to review with the Company's Risk and Remuneration Committee of the Board of Directors. This review is facilitated by the Head of Human Resources and seeks the Risk and Remuneration Committee's ratification of incentives and compensation for senior managers.

In addition, compensation of each employee is reviewed by their line manager, functional manager, CEO and the Head of HR, and the equivalent functional roles within the Company's parent company.

Compensation is delivered through a combination of base salary and incentive compensation consisting of an annual cash bonus and stock-based, long-term incentive awards, all of which are performance based.

Base salary. Base salaries are reviewed annually, and adjustments are made from time to time as management deems appropriate to recognise performance, changes in duties and/or changes in the competitive marketplace. Base salary will comprise a significant proportion of total compensation.

Performance-Based Annual Cash Bonus. Annual bonuses are always discretionary and are based upon the individual performance of each employee as well as that of the Company and The Travelers Companies, Inc. as a whole. The following factors are used to determine the appropriate annual cash bonus that should be paid to an employee:

- the performance of the employee;
- compensation market practices as reflected by external vendor compensation surveys;
- performance of the Company relative to financial measures set in the business plan, prior year's performance and the performance of industry peers; and
- performance of The Travelers Companies, Inc. relative to financial objectives.

Additional qualitative factors are also considered, such as:

- the effective management of risk; and
- the demonstration of individual or leadership competence, teamwork and innovation.

Performance-Based long term incentives. Certain employees are eligible for long-term incentives in the form of The Travelers Companies Inc. stock awards. Eligibility is determined by job criteria while award decisions are made with consideration of individual performance. These stock based awards are designed to ensure individuals have a continuing stake in the long term success of The Travelers Companies, Inc., and the Company.

As employees acquire increasing responsibility more of their compensation is variable and tied to The Travelers Companies, Inc's performance. Higher levels of management will receive proportionally more of their award in the form of stock options and performance shares, in alignment with the impact they have on the direction of the Company which can inevitably impact The Travelers Companies Inc. stock price. Lower levels of management and individual contributors will receive most of their entire award in the form of restricted stock units.

In addition, compensation of each employee is reviewed by their line manager, functional manager, CEO and the Head of HR

B.1.3 Supplementary Pension Scheme or early retirement scheme for members of the administrative, management or supervisory body and other key function holders

The Company's remuneration policy does not include any supplementary pension on early retirement scheme for members of the Board or key function holders.

B. System of Governance *continued*

Details of the remuneration of the members of the Company's Board is disclosed in the Company's report and accounts, in accordance with the requirements of the applicable law and UK accounting standards (UK Generally Accepted Accounting Practice) including FRS102, the financial reporting standards applicable in the United Kingdom and the Republic of Ireland.

All executive directors and senior managers participate in the Company's group personal pension plan. Company contributions range from 9% to 12% depending on the individual's own contributions under a matching scheme. If pension contributions at this level would result in a punitive personal income tax charge, rather than a pension contribution an increase to the individual's salary is made in an amount such that there is no incremental cost to the Company.

B.1.4 Material Transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body

There were none during the period.

B.2 Fit and proper requirements

The Company has a Fit and Proper Policy which is approved by the Board. The purpose of the Fit and Proper Policy is to:

(i) identify the key functions that are important to the sound and prudent management of the business, and

(ii) set out the policies and procedures for the fit and proper assessment of the individuals that perform key functions, including every person in respect of whom an application under section 59 of FSMA is made.

Fitness and propriety checks are made before an individual is appointed to a key function and periodically thereafter. The Company needs to ensure that key function holders are fit for their roles by having appropriate qualifications and experience, and proper by having a good reputation and appropriate integrity. These checks include the following:

(i) At least two interviews conducted by the hiring manager and at least one other permanent member of staff.

(ii) Background check process which will include, as a minimum:

a. Criminal records check

b. Credit check

c. Verification of previous employment for the last seven years (unless the individual has been continuously employed by a Travelers group company during this period)

d. Verification of educational and professional qualifications

e. reasonable steps to obtain appropriate references from the person's current and previous employers

The Company will assess the fitness and propriety of persons performing key functions on an on-going basis.

The frequency of this assessment will be at least every three years, and sooner if a specific issue arises. Annually, the General Counsel will ask each person performing a key function to certify that there have been no changes to their criminal record status or credit status since the date of the last background check or annual certification, as applicable.

The Company has an annual performance assessment process which sets out the minimum competencies required for those persons effectively running the Company. These minimum competencies against which performance is measured include Performance Management of others, Employee Engagement, Customer Outcomes, Governance, Compliance, and acting with integrity, due care, skill and diligence. The fitness and propriety assessment forms part of the individual's appraisal/performance review and involves consideration of the following:

- the person's role and responsibilities by reference to their job description (and, for approved persons only, the approved person competency set and scope of responsibilities document (as applicable));
- whether the individual has attended the necessary training (including risk and compliance training) in order to remain competent and capable to perform the role.
- the individual's business conduct; and
- whether the person has performed his or her key function in accordance with the relevant conduct standards (which apply to that individual).

B. System of Governance *continued*

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management system

The risk strategy is articulated in an overarching Risk Management Framework ("RMF") as well as a number of policies, frameworks and processes which operate across the three lines of defence. The Company's RMF assists Risk and Control Owners to identify, assess and manage significant, or potentially significant, internal and external risks to achieving the Company's plans and objectives, which includes maintaining targeted capital levels.

Risk management has a fundamental role in both the business planning process and monitoring progress against those plans. The Company's business planning process turns the strategy into a set of objectives and targets that are articulated and cascaded across the Company. Development of these plans and objectives/targets considers the risks to which the Company is exposed.

To manage risk across the business, the Company has adopted the "three lines of defence" model and has established four key control functions that operate per the requirements of the Solvency II Directive (Actuarial, Risk, Compliance and Audit). These functions work across all of the three lines of defence to help manage the range of risks to which the Company is exposed. These key functions are responsible for providing oversight of, and challenge to, the business and to provide assurance to governing bodies in relation to the Company's internal control framework.

Responsibilities in the risk strategy are summarised as:

The First Line of Defence – Business Management

Risk Owners, embedded within business operations, make up the first line of defence and are responsible for the day to day management of risk on a continuous basis as well as delivering the strategy and optimising performance according to pre-agreed risk appetite.

The Second Line of Defence – Oversight

The second line of defence primarily comprises the risk management and compliance functions. The second line of defence provides independent assurance to the Board with regards to the adequacy and effectiveness of risk management.

The Third Line of Defence – Assurance

The third line of defence comprises internal audit, also referred to as the Company's assurance function. The third line of defence provides an independent and balanced view of the effectiveness of the first and second line functions, has direct access to the Board, and is independent of management.

The Company's RMF links to the Company's parent's identification of significant risks. The RMF is implemented by the risk management function which monitors and review the risk profile and the effectiveness of risk management activities on a continuous basis. The Risk Management Function is led by a member of the Senior Leadership Team who chairs the Executive Risk Committee and reports to the Company's Board and the Risk and Remuneration Committee.

Key risk management information, linked to the risk strategy, including specific risk appetite metrics and risk assessments, are employed across the entirety of the business to measure and monitor the level of risk taking actually occurring, and to provide a view of the Company's progress against its business plans. The Risk Management Function facilitates production and provides oversight of this key risk management information, through the risk register, which enables the Company effectively to identify, assess, measure and monitor individual and aggregated risks frequently. Risk register metrics and assessments also provide appropriate inputs into capital modelling and forecasting processes (e.g. the ORSA, and other internal requirements). The risk register and associated reporting is integrated in to the organisational structure as Risk and Control Owners (the majority of who are in the first line of defence) frequently review the risks to which the Company is exposed with review and challenge by the senior committees and the second line of defence.

B.3.2 Own Risk and Solvency Assessment (ORSA)

The ORSA is an annual output of the Company's Risk Management Framework, embedded in the first line of defence, and focuses on the Company's business model, the portfolio of its products and customers, its risk profile, its plans over the short to medium term, and capital management.

B. System of Governance *continued*

The Company's ORSA process is forward-looking and has the following objectives:

- To develop and embed an ongoing process enabling the assessment of the Company's own solvency needs that takes into account its specific risk profile, approved risk appetite limits, and its short and long term business and capital strategies.
- To provide sufficient information that enables management to:
  - Ensure continuous compliance with regulatory capital requirements relating to Solvency Capital Requirements (SCR), Minimum Capital Requirements (MCR), and technical provisions.
  - Test, validate and challenge its short and long term business and capital strategies, and understand the capital resources required to support them.

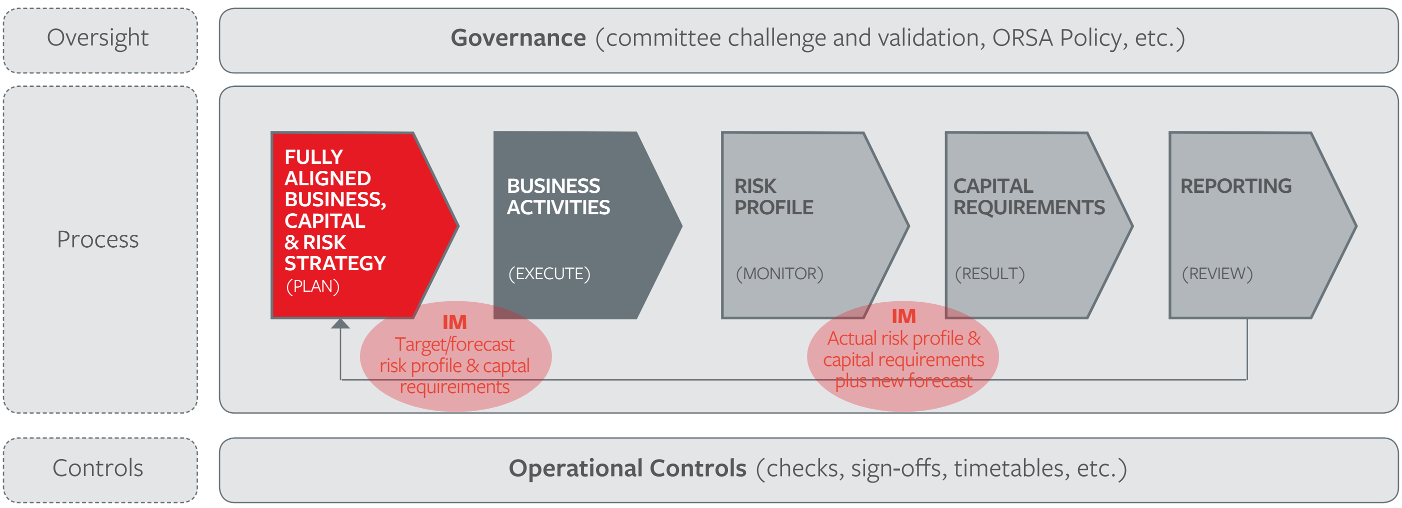
In the ORSA, the Company describes its risks, the capital it requires and the risk management work that assures policyholder benefits. Its production is governed by the Travelers Europe ORSA Policy which is owned by the Chief Risk and Administrative Officer and reviewed at least annually by the Board and the ERC. The ORSA is reviewed and approved by the Board and is expected to be submitted at least annually to the PRA to advance its statutory objectives of ensuring the safety and soundness of the firms it regulates, and contributes to securing an appropriate degree of protection for policy-holders. In 2016 the Company utilised its Internal Audit function to provide independent review and assurance that it is produced and evidenced to the standards required.

In order to achieve the Company's ORSA objectives and fulfil its obligations, the ORSA Policy requires implementation of a structured process across the business that links business planning, execution of those plans, monitoring and assessment of the risk resulting and capital profile that results, and the incorporation of insights and findings into business planning. This structured approach and the operational processes that sit beneath it ensure that risk identification, measurement and assessment form an integral part of the business management process and decision-making framework of the Company.

The ORSA considers both the regulatory capital and the economic capital position of the Company. The regulatory capital position is calculated using the Standard Formula which is calibrated to a 1 in 200 risk of ruin on a one year basis. Annually the Company assesses the appropriateness of the Standard Formula as the basis of calculating its regulatory capital requirement and documents this assessment within its ORSA. This assessment is performed by comparing the results under the Standard Formula to the results derived when using the Company's own capital model. For economic capital purposes the Company targets holding sufficient capital that over the three year planning time horizon it holds sufficient capital to maintain its AM Best "A (excellent)" rating. As set out in the ORSA, the Company uses its own capital model and assessment of its risk profile to determine its economic capital requirement.

The ORSA process is facilitated by the Company's Risk Management and Capital Modelling Functions in line with their requirements as documented in the RMF. These functions utilise the Company's risk register and internal model to assist management to identify, measure and monitor risks to the business plan and solvency.

The diagram below presents a high level summary of the process undertaken.



B. System of Governance *continued*

B.4 Internal Control System

The internal control system is designed to help assure that the Company achieves its objectives through operational effectiveness and efficiency, robust financial reporting and compliance with laws, regulations and policies.

The tone for the control environment is set by the Company's parent, the Company's Board of Directors and the SLT who are committed to a culture of management integrity, transparency and honesty, and who attribute high importance to the establishment and maintenance of a strong system of internal controls. A key aspect of the internal control framework is a robust risk management framework that ensures strong processes exist for risk identification, risk measurement and risk monitoring and that ensures appropriate risk mitigation strategies are in place. Internal controls are documented in the risk control policies and the accompanying policy and procedure documents. The operation of these internal controls and risk identification processes is monitored by the four control functions, namely the Compliance function, the Internal Audit function, the Actuarial function and the Risk Management function.

B.4.1 Delegation of Responsibilities

Delegation of responsibilities to key function holders and their direct reports, as well as the relevant reporting lines, is set out in a Governance Map. The Governance Map is maintained by the General Counsel, and is updated on a quarterly basis.

B.4.2 Compliance Function

Responsibilities of the Compliance Function are set out in a Compliance Charter and annual Compliance Plan, both of which are approved by the Company's Board and Executive Risk Committee on an annual basis. In addition, various internal control policies identify roles and responsibilities allocated to the Compliance Function. The Compliance Function is responsible for assisting the business in discharging its regulatory obligations. This involves helping the business in identifying, managing, monitoring and resolving compliance risks and issues, assisting with the implementation of controls around regulatory risk, encouraging the right culture across all levels of the firm and providing the Board and senior management with assurance that key regulatory risks are being appropriately managed. In particular, the Compliance Function will monitor how the business has discharged its regulatory obligations using a combination of targeted monitoring reviews and continuous monitoring and reporting, as set out in the annual Compliance Plan.

The escalation procedure for a possible non-compliant issue is via the Compliance Report to the Executive Risk Committee and the Company's Board, or through more immediate escalation to the individual Board member or relevant key function if a matter is material and requires more urgent action. In the unlikely event that appropriate remedial action is not taken following escalation of a material issue, the Compliance function will notify the appropriate regulatory authorities of the matter. All members of the compliance function are based in London.

The General Counsel and the Compliance Manager monitor the team's resources on a continuous basis throughout the year. Their objective is to ensure that the available resources are sufficient to complete the annual Compliance Plan within the stated timeframe and to provide the expected level of assurance.

Compliance is owned by the Company's Board, with due attention given on Board and Risk Committee agendas.

The Compliance Function reports:

- Quarterly to the Board;
- Quarterly to the Risk and Remuneration Committee;
- Quarterly to the Executive Risk Committee;
- Monthly to the Underwriting Committee (on complaints);
- As required to the Product Oversight Group;
- Following completion of a Compliance Review, Specific Project or Continuous Monitoring to Board members, senior management and all stakeholders, and
- Monthly to SLT: (i) by means of the Compliance dashboard; and (ii) monthly tracker of progress on reviews.

B. System of Governance *continued*

B.5 Internal Audit Function

The Travelers legal entities have a discrete internal audit function based in London which reports into the Head of Internal Audit in the United States. Each Business Unit and function within the Company is subject to internal audit review on a 2-3 year cycle. An audit plan is prepared each year and approved by the Audit Committee and Board. Reports are issued following each audit and circulated to senior management, both locally and within the group in the United States. The resolution of issues identified are tracked to ensure they are addressed on a timely basis.

The audit plan gives consideration to the materiality of each area, to the results of prior years' audits and to the quantum of change being experienced across each area of the business. The current year's plan is therefore determined on a risk-based selection of areas to be addressed. The plan is sufficiently flexible to be changed mid-year if new circumstances arise. Any proposed changes in scope are agreed by the Audit Committee and Board before being implemented.

Internal Audit evaluates the adequacy and effectiveness of the internal controls in each areas it audits and structures its work around four key risk management objectives, namely:

- Financial statement integrity
- Operational effectiveness
- Compliance with local laws and regulations
- System and data integrity

The Internal Audit Function is managed by the Head of Internal Audit, who is a local employee but has a direct reporting line to the Group's Head of Internal Audit based in Hartford, United States. The Head of Internal Audit has no other role within the Company and has no additional responsibilities. In addition the Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee and meets each year with the Audit Committee without executive management in attendance.

The Internal Audit Function reports:

- Quarterly to the Board;
- Quarterly to the Audit Committee;
- Quarterly to the Executive Risk Committee;

B.6 Actuarial Function

Article 48 of the Solvency II Directive requires the Company to have an actuarial function and for that function to report to the Board formally on technical provisions, reinsurance arrangements and underwriting policy. The Company has an in-house team of actuaries that perform this role. The Actuarial Function is also engaged in pricing, reserving and management information related activities. The department is structured in line with the functions the team needs to perform and has a separate pricing and reserving team. This reduces the potential to create a conflict of interest.

The Chief Actuary of the Company reports to the CEO of the Company to ensure that the Actuarial Function is not unduly influenced by the underwriting function.

The Actuarial Function Reports and the Opinions on Underwriting Policy and the Reinsurance Arrangements are produced annually and presented to the Board by the Chief Actuary of the Company, having first been reviewed by the Executive Risk Committee. The Board exercises appropriate additional oversight over the reserving process by receiving quarterly reports from the Chief Actuary. Detailed review of the quarterly reserve reports is delegated to the Finance Committee and on an annual basis the Audit Committee meets with the Chief Actuary and the External Auditors to receive reserve reports and to discuss reserving issues.

The Board and Company's senior management do not have an undue influence on the activities of the Actuarial Function due to the professionalism of the in-house actuarial team, peer reviews from external auditors and oversight from other actuaries within the wider Travelers organisation.

B. System of Governance *continued*

B.7 Outsourcing

The Company's Outsourcing Policy sets out the minimum standards, and roles and responsibilities, relating to the outsourcing of a process, a service or an activity by or on behalf of the Company, and ensures compliance by the Company with all applicable regulations when entering into outsourcing arrangements.

The Policy applies to all types of outsourcing arrangements entered into by the Company, including intra-group outsourcing, where another company within the Travelers group performs a function on behalf of the Company.

The Company is committed to complying fully with all applicable regulatory requirements relating to the outsourcing of a function, including the requirements of Solvency II and the requirements of the FCA and the PRA. In particular, the Outsourcing Policy provides that the Company will:

- ensure that each outsourcing arrangement that it enters into is conducted in a sound and prudent manner
- ensure that the outsourcing of a function does not impair the ability of the supervisory authorities to monitor the Company's compliance with its obligations
- monitor the compliance by the Company's employees with the Outsourcing Policy
- conduct each outsourcing arrangement that it enters into with appropriate care and diligence
- consider the interests and fair treatment of customers when assessing the outsourcing of a function;
- consider how its customers might be impacted by the outsourcing of a function;
- establish and maintain an effective system of governance that provides for the sound and prudent management of its business in respect of outsourcing arrangements
- include in its system of governance a process for monitoring and reviewing the quality of an outsourced function.
- ensure that the outsourcing of a function does not materially impair the quality of its system of governance.

The Company will undertake due diligence to assess whether a proposed service provider is suitable to carry out an outsourced function, which shall include an assessment of:

- its financial and technical ability;
- its capacity to perform the outsourcing;
- its risk management and control framework;
- whether there are any actual or potential conflicts of interest, and
- whether it has adequate systems and procedures in place to manage the risks posed by financial crime

The Company will enter into a written agreement with the service provider allocating the respective rights and obligations, and will establish and maintain effective systems and controls to supervise and monitor the performance of an outsourced function.

The Outsourcing Policy and Outsourcing Process has been approved by the SLT and the Company's Board.

The Company uses several service providers to undertake operational functions or activities that can be considered critical or important, as set out in the table below.

Function or activity	Jurisdiction of service provider
Claim administration services	India
Facilities management and services	UK
IT support functions - provided through intragroup services agreement	USA
IT infrastructure and security - provided through intragroup services agreement	USA
Insurance policy administration services	India
Investment management - provided through intragroup services agreement	USA
Offsite data storage - provided through intragroup services agreement	USA
Payroll processing - provided through intragroup services agreement	USA

B.8 Any other information

This system of governance is considered by the Board, the SLT and the ERC to be appropriate for the nature, scale and complexity of the Company's business.

C. Risk Profile

C.1 Underwriting Risk

Underwriting risk as at 31 December 2016 comprised 86.3% of the undiversified basic SCR.

C.1.1 Material Risk Exposures

The Company has an Insurance Risk Policy (which covers underwriting risk) which is reviewed and approved annually by the ERC and the Board. Underwriting risk includes the following exposures:

- **Claims:** Inadequate management or control of claims events and inconsistent or inappropriate case reserving.
- **Delegated Underwriting:** A lack of due diligence in the selection process for Delegated Underwriting Authorities (DUAs) and/or inadequate ongoing monitoring.
- **Large Loss Frequency and Severity:** Potential for the frequency and severity of claims payments to be different to that anticipated when pricing risks.
- **Portfolio Aggregation:** Inadequate or ineffective supervision of aggregates insurance appetite, or over reliance on methods of aggregation. Failure to accumulate insurance exposures in an accurate and timely manner, or established appropriate risk appetite levels.
- **Pricing and Selection:** Inadequate pricing or selection of risks that fails to appropriately assess the underlying risk exposures.
- **Reinsurance:** Failure to utilise reinsurance as a tool to protect capital and revenue and meet risk appetite guidelines.
- **Reserving:** Uncertainty of the timing of cash flows being different to that expected. Eventual claim payments are different to the reserves estimated for those liabilities.
- **Underwriting portfolio management:** Failure to predict the effect of industry, economic or market trends on individual classes of business' profitability, leading to incorrect underwriting strategy.

There were no changes to the material underwriting risk exposures during the period, nor to the measures used to assess those material risk exposures.

Life underwriting risk in the Standard Formula and the quantitative templates relates to exposures in respect of claims settled by the award of periodic payment orders.

C.1.2 Material Risk Concentrations

Geographically the major risk concentrations are to the UK and Ireland and by peril the largest exposure is to a large windstorm event with consequent storm surge. The underwriting portfolio with the largest exposure concentration is the professional indemnity coverage provided to UK solicitors.

C.1.3 Material Risk Mitigation

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 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.

C. Risk Profile *continued*

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.

The Company has adopted various processes as principal control mechanisms around the various categories of Insurance Risk. They range from daily and weekly activities to annual functions.

C.1.4 Risk Sensitivity and Sensitivity Analysis

The major underwriting risk sensitivities are to the adequacy of reserves established at 31 December 2016 and to the projected loss ratio at which business will be written in the next twelve months. Should reserves established at 31 December 2016 deteriorate by 5% the impact on shareholders' funds post tax will be to reduce them by £25.8m. Should the loss ratio projected for the 2017 year deteriorate by 5% more than projected, the impact on shareholders' funds post tax would be £8m.

C.2 Market Risk

C.2.1 Material Risk Exposures

The Company's material market risk exposures are to interest rate risk and asset price risk on its fixed income investment portfolio and foreign currency risk through having unmatched foreign currency assets and liabilities.

As at 31 December 2016 the Company had an investment portfolio comprised of government and corporate bonds with a market value of £1,079.6m. All investments are high quality, highly liquid and traded on a recognised investment exchange and as such comply with the prudent person principle embedded in the Solvency II directive. The Company does not use derivatives other than to mitigate risk and has not utilised derivatives during the year.

The Company's only foreign currency exposures are to the Euro, through its branch in Ireland and its run-off branches in the Netherlands, France and Germany, and to the US dollar through business written denominated in US dollars and through transactions with affiliated group companies based in the United States.

The Company also has a contingent exposure to a defined benefit pension scheme based in the UK in the event the sponsoring employer, an affiliated group company, is unable to meet its liabilities as they fall due.

There were no changes to the material market risk exposures during the period, nor to the measures used to assess those material risk exposures.

C.2.2 Material Risk Concentrations

The Company's most material investment exposure is to the bonds of the UK Government. At 31 December 2016 the market value of its holding in UK government bonds was £411.1m, or 38% of its investment portfolio. The Company's single largest holding in a corporate bond was £18.4m, or less than 2% of its investment portfolio.

The Company had no material foreign currency exposure as at 31 December 2016.

C. Risk Profile *continued*

C.2.3 Material Risk Mitigation

Management of the Company's investment portfolio is outsourced to an affiliated group company, The Travelers Indemnity Company. The investment strategy is agreed annually by the Company's Board and performance against this strategy is reviewed quarterly in meetings between the investment manager and the Finance Committee. The Company has a conservative investment risk appetite and invests only in high quality government and corporate fixed interest securities. Limits are in place to manage exposures to particular industries and individual counterparties. The term of the invested assets purchased are set to match the duration of the underlying insurance liabilities.

The Company aims to match foreign currency assets and liabilities by currency with any surplus being held in sterling. Any foreign currency surpluses or deficiencies are actively managed, on at least a quarterly basis, by selling or buying currency assets to resolve the situation.

The Finance Committee monitors market risk and foreign currency exposures and adherence to the Company's risk appetite.

C.2.4 Risk Sensitivity

The major market risk sensitivities are to a significant change in interest rate expectations, the insolvency or financial impairment of an individual investment counterparty or a significant movement in foreign currency rates.

C.2.5 Sensitivity Analysis

The investment portfolio typically has a relatively short duration matching the term of the insurance liabilities. If interest rates had risen by 100 basis points as at 31 December 2016, shareholder's equity would have fallen by £22.7m.

The failure of its largest corporate investment counterparty as at 31 December 2016 would cost the Company £18.4m, or approximately 4% of its net assets.

The impact of a 10% movement in the exchange rate for the largest currency exposure impacts the Company's net assets by less than £1m as at 31 December 2016.

C.3 Credit Risk

C.3.1 Material Risk Exposures

Credit risk as at 31 December 2016 comprises 3.5% of the undiversified basic SCR.

The Company's material credit risk exposures are to investment counterparties through its fixed income investment portfolio and to reinsurers, brokers and policyholders through its insurance underwriting activities.

There were no changes to the material credit risk exposures during the period, nor to the measures used to assess those material risk exposures.

C.3.2 Material Risk Concentrations

The Company's biggest investment counterparty is the UK Government, to whom the exposure at 31 December 2016 was £411.1m. The single biggest corporate bond exposure was £18.4m, or less than 2% of the value of the investment portfolio as at 31 December 2016.

The single biggest reinsurer exposure was £21.1m as at 31 December 2016. There was no material exposure to any individual policyholder.

C.3.3 Material Risk Mitigation

Credit exposures are managed through the thoughtful analysis and selection of individual counterparties and the use of limits to manage exposures to individual counterparties.

C. Risk Profile *continued*

Investment analysts within the Company's group provide reports on industry sectors and individual investment counterparties. The Company invests only in high quality and highly liquid assets that are traded on recognised investment exchanges and are rated "A-" or higher with Standard & Poor's.

The Company policy is to purchase reinsurance only from those reinsurers who meet the Company's security standards. Reinsurance counterparties are subject to a rigorous internal assessment process by reviewing ratings provided by rating agencies and other publically available information. The Company utilises resources from the Travelers group in managing this risk.

Some insurance policies underwritten by the Company provide for a significant individual loss deductible and/or aggregate deductible in respect of the compulsory insurance classes of Motor or Employers' Liability. In these cases, the insolvency of the Company's insured will result in a credit exposure for the Company. This type of exposure is managed by requiring the insured to provide collateral, typically in the form of a Letter of Credit.

Proactive credit control procedures are in place to limit outstanding balances owed by reinsurers, brokers and policyholders.

The Finance Committee monitors Credit Risk and the Company's adherence to its appetite for Credit risk.

C.3.4 Risk Sensitivity

The key risk sensitivities for credit risk are to the failure of an individual counterparty, or to a market wide event, such as an economic recession or large insured Catastrophe loss, that impairs the financial security of a number of counterparties at the same time.

C.3.5 Sensitivity Analysis

Failure of the largest corporate bond counterparty and reinsurer counterparty as at 31 December 2016 would each cost the Company an amount representing approximately 4-5% of its net assets on a UK GAAP basis.

C.4 Liquidity Risk

C.4.1 Material Risk Exposures

The Company has no material liquidity exposures. The Company has no external debt, it is well capitalised and it has a highly liquid investment portfolio whose duration is set to match the duration of its insurance liabilities. It also has the support of a financially strong parent company, The Travelers Companies, Inc.

There were no changes to the material liquidity risk exposures during the period, nor to the measures used to assess those material risk exposures.

C.4.2 Material Risk Concentrations

The Company has no material liquidity risk concentrations.

C.4.3 Material Risk Mitigation

The Company has a highly liquid investment portfolio and a strong capital position. Cash-flow forecasts are prepared on a weekly basis and a buffer of liquidity retained to manage unexpected cash requirements. The Finance Committee oversees the management of liquidity risk.

C.4.4 Risk Sensitivity

The Company has no particular sensitivities to liquidity risk.

C. Risk Profile *continued*

C.5 Operational Risk

C.5.1 Material Risk Exposures

Operational Risk is 7.0% of the Company's final SCR as at 31 December 2016.

The Company has an Operational Risk Policy which is reviewed and approved annually by the ERC and the Board. The operational risk profile includes risks from processes, people, systems and external events. Six categories have been identified by the Board as being the most material operational risk areas and defined in the Company's risk register:

- Compliance, Legal and Third Parties
- Conduct
- Data Management and Reporting
- Employee and Employment Practices
- Financial Crime
- IT Infrastructure, Security and Change

Operational risks are reviewed quarterly and linked to the ORSA through performance of the Risk and Control Self-Assessment ("RCSA") process facilitated by the Risk Management Function.

Qualitative risk concentration and sensitivity tests linked to the operational risk profile were analysed in the 2016 Company ORSA some of which were:

- Data and Infrastructure Security
- Business Continuity / Disaster Recovery
- Financial Crime

These tests are facilitated by the Risk Management Function linked to emerging risks and they provide early warning to the Board and senior management of extreme but plausible events that could impact the business and enables the Company to formulate plans to manage the business in the event of such extreme shock.

Other key operational risks with the corresponding mitigating actions are summarised in the table below:

Process Risks	Mitigating Activities / Tools
Business Operation and Process Failures	• Documented controls and procedures
	• Statistical reporting
	• Business Continuity arrangements
Governance Failures	• Documented controls and procedures
	• Corporate Governance Structure
Health & Safety Procedural Failures	• Documented controls and procedures
	• Review and enhancement of risk control activities
Change Management Failures	• Periodic review of projects and activities
	• Compliance with Travelers Group Change Management Processes and Procedures

People Risks	Mitigating Activities / Tools
Fraud	• Documented controls and procedures
	• Anti-fraud administration procedures
	• Authorisation limits and segregation of duties
	• Employee screening
Human Resources	• Documented controls and procedures
	• HR Policies and monitoring
	• Training programme for Management and Staff
Finance and Accounting Errors	• Documented controls and procedures
	• Accounting Policy
	• Authority Limits
	• Review oversight by Internal Audit

C. Risk Profile *continued*

Compliance and Legal	• Documented controls and procedures • Compliance Plan • Risk Committee oversight and reporting • Approval limits • Contracts approval procedure

Systems Risks	Mitigating Activities / Tools
Technology	• Documented controls and procedures • Fall-back suppliers/Service Providers for persistent failed delivery • Disaster Review/Recovery Processes
Systems and information Security	• Information Security policies and monitoring • Business Continuity Plan

External Risks	Mitigating Activities / Tools
External Party-induced BCP Failure	• Systems Security Checks • Rigorous Business Continuity/Disaster Recovery Plan • Office Premises Security Checks
Failure of Outsourcing Arrangements	• Service-level agreements • Outsourcing approval and monitoring procedures
Loss of key distribution relationships	• Proactive management of Third-party relationship issues • Proactive sourcing of alternative distribution relationships
Changes in Regulatory Framework	• Legal and Compliance monitoring procedures • Regular review of regulatory environment

In addition, regular risk monitoring and reporting using the risk register provides management and the Board with ongoing assurance that established operational controls to manage these operational risks are functioning properly. Recommendations and actions arising from this review are documented in the risk register and tracked to facilitate a discussion about the plan, its risks, and potential management actions to enhance the Company's resilience and deliver the plan's objectives.

Through the General Counsel's attendance at the Executive Risk Committee there is challenge over whether regulatory elements are considered appropriately within these risks. Similarly, notable regulatory developments and breaches are disseminated through Compliance reporting linked to the Risk Management Framework.

There were no changes to the material risk exposures during the period, nor to the measures used to assess those material risk exposures.

C.5.2 Material Risk Concentrations.

The Company has no particular operational risk concentrations.

C.5.3 Material Risk Mitigation

See table above.

C.5.4 Sensitivity Analysis

The Company does not perform any sensitivity analysis in respect of operational risk.

C.6 Other material risks

None.

C.7 Any other information

None.

D. Valuation for Solvency Purposes

D.1 Assets

The Company's assets on a Solvency II and UK GAAP basis as at 31 December 2016 were as set out below:

	Solvency II basis	UK GAAP basis	Difference
	£'m	*£'m*	*£'m*
Deferred Tax Asset	24.8	23.3	1.5
Investments	1,091.6	1,079.6	12.0
Reinsurance recoverables	44.6	69.2	(24.6)
Insurance and intermediaries receivables	2.7	38.3	(35.6)
Reinsurance receivables	7.7	7.7	-
Receivables	1.4	1.4	
Cash 31.2	31.2	-	
Accrued interest	-	12.0	(12.0)
Deferred acquisition costs	-	14.0	(14.0)
Other assets	8.3	8.3	-
Total Assets	1,212.3	1,285.0	(72.7)

The Company's assets are recognised and valued using the following principles:

Deferred tax asset

The deferred tax asset relates to carry forward tax losses and is valued using an estimate of future profits by financial year and then applying the latest tax rate which has received Royal Assent and which might reasonably be expected to apply when the timing differences reverse. There are no unprovided deferred tax assets or liabilities.

The difference in the valuation between Solvency II and UK GAAP relates to the application of deferred tax to valuation differences that apply between net assets on a UK GAAP and a Solvency II basis, and to the fact that the Solvency II basis deferred tax asset is discounted to put it onto an economic basis, reflecting the fact that the asset will reverse over a number of financial years.

The recoverability of the deferred tax asset depends on the availability of future profits. Projected profits of the Company over the three year business planning cycle has been used as the basis for determining the recoverability of this asset, together with the indefinite tax loss carry forwards available in the UK. The Company made tax losses of £1.6m in 2016 (2015: tax losses of £50.2m).

Investments

The Company classifies its investments as "available for sale" and carries those investments at fair value with unrealised gains and losses being reported through Other Comprehensive Income on a UK GAAP FRS 102 basis. 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. The difference in the Solvency II valuation basis compared to UK GAAP is that on a Solvency II basis the value of investments includes accrued interest.

Reinsurance recoverables

Reinsurance recoverables on a Solvency II basis relates to all expected future cash inflows and outflows from reinsurers in respect of contracts bound as at the balance sheet date. These cash-flows are discounted to have them valued on an economic basis. The major difference between the UK GAAP and Solvency II basis valuation is that on a Solvency II basis the reinsurance recoverables are stated net of cash outflows in respect of premiums or reinstatement premiums. On a UK GAAP basis these cash outflows are presented separately as liabilities. In addition, the UK GAAP reserves are not discounted, and UK GAAP includes an unearned premium reserve for that period of a reinsurance contract's term that is unexpired as at the balance sheet date. Solvency II does not recognise the concept of unearned premium, but instead recognises expected reinsurance cash inflows and outflows up until the expiry of the underlying reinsurance contract.

D. Valuation for Solvency Purposes *continued*

Insurance and intermediaries receivables

On a Solvency II basis, only insurance premiums that are outstanding past their credit terms are shown as a separate asset on the balance sheet. All other insurance premiums receivable are reported as a component of technical provisions. This explains the difference in valuation to the UK GAAP basis. Insurance premium receivables are stated net of an impairment provision and are recorded at book value as a reasonable proxy for economic value, as all amounts are expected to be received within six months.

Reinsurance receivables/ Receivables

There is no difference in the valuation of reinsurance receiveables/receiveables on a UK GAAP and Solvency II basis. Reinsurance receiveables/receiveables are stated net of an impairment provision and are recorded at book value as a reasonable proxy for economic value, as all amounts are expected to be received within six months.

Cash

Cash is held at book value as a proxy for market value and a consistent valuation basis is used for Solvency II and UK GAAP reporting.

Accrued Interest

Accrued interest is valued at book value for both Solvency II and UK GAAP purposes. As all amounts accrued fall due for payment within six months this is deemed a reasonable proxy for market value. For Solvency II purposes accrued interest is classified as part of Investments.

Deferred acquisition costs

Deferred acquisition costs relate to that element of broker commissions that on a UK GAAP basis fall to be earned subsequent to the balance sheet date. The concept of deferred acquisition costs does not exist on a Solvency II basis.

Other assets

Other assets principally comprise a number of small other debtors such as intercompany receivables and tax. As all such amounts are recoverable within twelve months they have been valued at book value as a proxy for market value. There is no difference in valuation basis between Solvency II and UK GAAP.

D.2 Technical Provisions

Gross technical provisions as at 31 December 2016 were as set out below:

	2016
	£'m
Best estimate	732.9
Risk margin	37.2
Total gross technical provisions	**770.1**

Technical provisions by Solvency II class of business are reported in the accompanying quantitative templates at S.12.01.02 and S.17.01.02. The most material class is General Liability which comprises 77% of the total best estimate as follows:

General Liability	**2016**
	£'m
Best estimate	567.2
Risk margin	28.2
Total Technical provisions	**595.4**

The gross technical provisions best estimate represents the Company's best estimate of the ultimate cost of settling claims that will arise from all contracts written as at the balance sheet date, including those that are bound but not yet incepted.

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 and the eventual final costs of the claims that have been reported by the balance sheet date but which remain unsettled, there is considerable uncertainty of forecasting those claims that will arise on exposures written that extend beyond the balance sheet date. 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

D. Valuation for Solvency Purposes *continued*

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

All projections are carried out separately for each country, product, line of business and accident year. Gross and ceded data is projected separately. 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. These cash-flows are then discounted using the relevant EIOPA yield curves. The data is then aggregated to Solvency II class of business for reporting purposes.

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. It is not unlikely that the ultimate cost is greater, or lower, than the initial reserves by 5%.

The risk margin is an addition to the best estimate liabilities. The risk margin is determined using the Cost of Capital approach and is calculated as the amount of capital needed to support the SCR over the lifetime of the business at a prescribed cost of capital rate of 6% per annum.

To allow for business that is contractually bound but not incepted at the balance sheet date we use assumptions as to binding date, together with data from the latest business plan. For reinsurance we assume a future management action will be to purchase reinsurance cover, similar to the protection offered by current reinsurance treaties, to provide ongoing protection for any unexpired gross exposures. An additional expense provision is calculated to cover the cost of administering the policies and settling the claims in respect of unearned premiums and bound but not incepted policies. For Events Not in Data we use an assumption-based approach which has been benchmarked against the market.

This approach is applied to all Solvency II classes. On a Solvency II basis gross technical provisions as at 31 December 2016 were £770.1m. On a UK GAAP basis gross technical provisions were £801.9m. A reconciliation of the UK GAAP reserves to the Solvency II reserves on a gross and net basis, itemising the key items in reconciliation, is set out below:

As at 31 December 2016	**Gross**	**RI**	**Net**
	£'m	*£'m*	*£'m*
UK GAAP reserves	801.9	69.2	732.7
Removal of margin	(21.5)	-	(21.5)
Removal of UPR reserve	(119.2)	(9.3)	(109.9)
Future Premium	(52.8)	(23.2)	(29.6)
Discounting	(7.7)	(0.4)	(7.3)
Claims on unearned/unincepted business	74.8	5.8	69.0
Commissions on unearned business	11.1	-	11.1
Risk Margin	37.2	-	37.2
Additional expenses	18.7	-	18.7
Events not in data	27.6	2.5	25.1
Solvency II Technical Provisions	**770.1**	**44.6**	**725.5**

D. Valuation for Solvency Purposes *continued*

On a Solvency II basis reserves are carried on a best estimate basis so any reserve margin held under UK GAAP is released. Solvency II does not recognise the concept of earned premium and earned reserves. Instead reserves are established based on all contracts written at the balance sheet date, including those where the Company is contractually bound but the contract has not yet incepted. Thus the unearned premium reserve held on a UK GAAP basis is released and replaced by future cash outflows in respect of claims for all contracts to which the Company is contractually bound at the balance sheet date. Solvency II technical provisions also include the premium cash inflows in respect of these contracts.

On a Solvency II basis the Company is required to carry a reserve for Events Not in Data ("ENIDS"). In addition the Company provides for the additional expenses that will be incurred in servicing all contracts to which the Company is contractually bound at the balance sheet date to their expiry. Then to put the provisions held onto an economic basis, a risk margin is added to reflect the margin a willing buyer on an arms-length basis would require to assume these liabilities, and the reserves are discounted to reflect the time value of money.

The Company has not applied the matching adjustment referred to in Article 77b of Directive 2009/138/EC, nor has it used the volatility adjustment referred to in Article 77d of Directive 2009/138/EC, nor the transitional risk-free interest rate term structure referred to in Article 308c of Directive 2009/138/EC, nor the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

Reinsurance recoverables as at 31 December 2016 were £44.6m. Reinsurance recoverables relate to current and expected claims recoveries from reinsurers in respect of all contracts written, including those bound but not incepted, at the balance sheet date, offset by payments due to reinsurers re premiums and reinstatement premiums.

There have been no material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.

D.3 Other Liabilities

The Company's other liabilities as at 31 December 2016 on a Solvency II and UK GAAP basis were as follows:

	Solvency II basis	UK GAAP Basis	Difference
	£'m	*£'m*	*£'m*
Insurance and intermediaries payables	3.5	3.5	-
Reinsurance payables	0.2	15.4	(15.2)
Any other liabilities	17.8	27.4	(9.6)
Total Other Liabilities	**21.5**	**46.3**	**(24.8)**

The amounts disclosed as Any Other Liabilities can be further broken down as follows:

	Solvency II basis	UK GAAP basis	Difference
	£'m	*£'m*	*£'m*
Insurance premium tax	-	6.4	(6.4)
Other insurance liabilities	0.1	0.1	-
Reinsurers' share of deferred acquisition costs	-	0.2	(0.2)
Amounts owed to Group undertakings	16.9	17.0	(0.1)
Accruals	0.8	3.7	(2.9)
Total	**17.8**	**27.4**	**(9.6)**

The Company's other liabilities are recognised and valued using the following principles:

D. Valuation for Solvency Purposes *continued*

Insurance and Intermediaries payables

These amounts are recognised and valued consistently on a UK GAAP and a Solvency II basis. As amounts are payable within six months they are carried at UK GAAP book value for Solvency II purposes, which is deemed a reasonable proxy for economic value.

Reinsurance payables

On a Solvency II basis cash outflows to reinsurers are a component of reinsurance recoverables. The only element reported as a liability on the balance sheet is the amount outstanding past credit terms. As amounts are payable within six months they are carried at UK GAAP book value for Solvency II purposes, which is deemed a reasonable proxy for economic value.

Insurance premium tax/Accruals

The differences in valuation between UK GAAP and Solvency II is all attributable to amounts being included within technical provisions on a solvency II basis. As all these amounts are payable within six months they are carried at UK GAAP book value for Solvency II purposes which is deemed a reasonable proxy for economic value.

Reinsurers' share of deferred acquisition costs

The reinsurer's share of deferred acquisition costs under UK GAAP relates to that element of commissions receiveable from reinsurers that falls to be earned after the balance sheet date. Deferred acquisition costs as a principle does not exist under Solvency II.

Amounts owed to Group undertakings

These amounts are recognised and valued consistently on a UK GAAP and a Solvency II basis, with the exception of a $0.1m intercompany reinsurance payable which is reclassified within technical provisions for Solvency II purposes. As amounts are payable within six months they are carried at UK GAAP book value for Solvency II purposes, which is deemed a reasonable proxy for economic value.

D.4 Alternative methods for valuation

None.

D.5 Any Other information

None.

E. Capital Management

E.1 Own Funds

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, and measuring the return on this capital;
- to comply with its regulatory capital requirements;
- to maintain a financial strength rating of AM Best A (excellent).

The Company's Capital Management Policy is owned by the Finance Committee and is approved by the Board on an annual basis. The Company's position relative to its regulatory capital requirements and its internal targets is monitored on a quarterly basis by the Finance Committee and reported to the Board.

The Company uses a three year business plan time horizon and ensures it has enough capital to meet its reasonably anticipated needs through this period. There have been no material changes to the Company's objectives and approach in this area during the year.

The Company's Own Funds are comprised principally of Tier 1 capital, which in turn is composed of share capital, share premium and a reconciliation reserve. There are no anticipated dividends over the foreseeable future. There is a small element of tier 3 capital that relates wholly to a deferred tax asset in respect of tax loss carry forwards. The Basic Own Funds by type and tier as at 31 December 2016 was:

	Tier 1	Tier 2	Tier 3	Total
	£'m	*£'m*	*£'m*	*£'m*
Share capital	203.8	-	-	203.8
Share premium	0.7	-	-	0.7
Deferred tax asset	-	-	24.8	24.8
Reconciliation reserve	191.3	-	-	191.3
Total Basic Own Funds	**395.8**	**-**	**24.8**	**420.6**

There is no restriction in the amount of Own Funds in either tier that is eligible to meet the Company's SCR. All Tier 1 Own Funds are eligible to cover the Company's MCR.

A comparison of the excess of assets over liabilities as calculated for Solvency II purposes and equity as shown in the Company's UK GAAP financial statements is set out below:

	UK GAAP	Solvency II	Difference
	£'m	*£'m*	*£'m*
Equity as at 31 December 2016	436.9	420.6	16.3

Shareholders' funds on a UK GAAP basis is higher than the excess of assets over liabilities on a Solvency II basis. This is because the additional provisions carried under Solvency II for the risk margin, future expenses and events not in data are greater than the benefit under Solvency II of releasing margin, discounting and recognising profit on unearned premiums. A detailed reconciliation is set out opposite:

	£'m
Equity per UK GAAP	**436.9**
Reserve margin release	21.5
Discounting	7.3
Events not in data	(25.1)
Additional expenses	(18.7)
Risk Margin	(37.2)
Profit recognised on unearned premiums	34.4
Deferred tax on UK GAAP to SII adjustments	1.5
Excess of assets over liabilities in Solvency II	**420.6**

E. Capital Management *continued*

No Own Funds item is subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of the Directive. The Company has no ancillary own funds.

There are no items deducted from Own Funds. £79m of Own Funds as at 31 December 2016 are pledged as collateral to Lloyd's to support the capital requirements of the Travelers Group's wholly aligned Lloyd's syndicate, Syndicate 5000. Although these assets are treated as Own Funds for Solvency II purposes, for internal monitoring purposes these assets are disallowed and treated as inadmissible solvency assets. Subsequent to the year end, following the revision of the personal injury discount rate to minus 0.75%, £50m of the assets previously pledged to Lloyd's were returned to the Company. The Company considered whether it was appropriate to record a contingent liability in respect of these assets but concluded that any call on these assets was sufficiently remote that it was not necessary.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Company uses the Standard Formula to calculate its Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"). The Company does not use any Undertaking Specific Parameters. The amount of the Company's MCR and SCR as at 31 December 2016 were £89.3m and £313.2m respectively. The SCR by risk module as at 31 December 2016 was as set out below:

SCR Component	SCR as at 31 December 2016
	£'m
Non-Life Underwriting	279.8
Life Underwriting	1.0
Market Risk	20.6
Credit Risk	10.8
Undiversified Basic SCR	312.2
Diversification credit	(20.9)
Basic SCR	291.3
Operational risk	21.9
Solvency Capital Requirement	**313.2**

The Company has not been required to use any Undertaking Specific Parameters or to make any capital add-on by the supervisory authority. In calculating the SCR using the Standard Formula, the Company used simplified calculations for the Non-Life Underwriting risk, Market Risk and Credit risk modules and within Market Risk for the Spread risk and Interest Rate risk sub-modules.

The MCR is calculated by reference to the net technical provisions by class as at 31 December 2016 and by the net written premiums by class written over the last twelve months. The result of the calculation is then subject to a floor and a cap of 25% and 45% of the SCR respectively. As at 31 December 2016 the MCR has been set at £89.3m.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company holds no equities and as such does not use the equity risk sub-module of the standard formula.

E.4 Differences between the Standard Formula and any Internal Models Used

Not Applicable.

E. Capital Management *continued*

E.5 Non-Compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company has remained in compliance with the MCR and SCR throughout the year and through the period since the end of the financial year. The Company's position relative to its capital requirements as at 31 December 2016 was as set out below:

	MCR	SCR
	£'m	*£'m*
Capital Requirement	89.3	313.2
Eligible Own Funds	395.8	420.6
Surplus	306.5	107.4
Coverage	**443.2%**	**134.3%**

E.6 Any other information

None.

Approval by the Board of Directors of the SFCR and Quantitative Reporting Templates

Travelers Insurance Company Limited

Financial Year ending 31 December 2016

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in the future.

Matthew Wilson
Director and Chief Executive Officer

19 May 2017

Report of the External Independent Auditor

Report of the External Independent Auditor to the Directors of Travelers Insurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Except as stated below, we have audited the following documents prepared by Travelers Insurance Company Limited as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Travelers Insurance Company Limited as at 31 December 2016, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S02.01.02 S12.01.01, S17.01.02, S23.01.01, S25.01.21, S28.01.01, ('**the Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'Relevant Elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Relevant Elements of the Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the Relevant Elements of the Solvency and Financial Condition Report

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Travelers Insurance Company Limited as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Report of the External Independent Auditor *continued*

Matters on which we are required to report by exception
In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Travelers Insurance Company Limited statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities
This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) 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 through its governing body, for our audit, for this report, or for the opinions we have formed.

KPMG LLP

15 Canada Square
London E14 5GL

18 May 2017

- The maintenance and integrity of Travelers Insurance Company Limited's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measure on technical provisions

Appendix A Quantitative Reporting Templates

General information

Undertaking name	Travelers Insurance Company Ltd
Undertaking identification code	5493008G0BNFHVUJ0Q27
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.05.02.01 - Premiums, claims and expenses by country
S.12.01.02 - Life and Health SLT Technical Provisions
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Appendix A *continued*

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	24,803
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,091,617
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	1,091,617
R0140	*Government Bonds*	529,827
R0150	*Corporate Bonds*	561,789
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	44,594
R0280	*Non-life and health similar to non-life*	44,594
R0290	*Non-life excluding health*	44,594
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2,701
R0370	Reinsurance receivables	7,665
R0380	Receivables (trade, not insurance)	1,376
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	31,243
R0420	Any other assets, not elsewhere shown	8,330
R0500	Total assets	1,212,330

Appendix A *continued*

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	766,590
R0520	*Technical provisions - non-life (excluding health)*	766,590
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	729,557
R0550	*Risk margin*	37,034
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	3,514
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	3,514
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	3,341
R0680	*Risk margin*	173
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	3,550
R0830	Reinsurance payables	200
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	17,829
R0900	**Total liabilities**	791,683
R1000	Excess of assets over liabilities	420,646

Appendix A *continued*

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business				12,051	5,202	4,699	81,623	113,145	1,050			775					218,545
R0120	Gross - Proportional reinsurance accepted				16	10	0	1,385	1,539	0			0					2,950
R0130	Gross - Non-proportional reinsurance accepted																0	
R0140	Reinsurers' share				1,324	108	-133	21,013	6,631	1,050			534					30,528
R0200	Net				10,743	5,104	4,832	61,995	108,053	0	0	0	241	0	0	0	0	190,968
	Premiums earned																	
R0210	Gross - Direct Business				14,586	6,371	6,269	80,281	114,414	411			1,077					223,409
R0220	Gross - Proportional reinsurance accepted				13	8	0	1,210	1,317	0			0					2,548
R0230	Gross - Non-proportional reinsurance accepted																0	
R0240	Reinsurers' share				1,547	181	586	20,206	6,688	411			667					30,286
R0300	Net				13,052	6,199	5,683	61,284	109,042	0	0	0	410	0	0	0	0	195,671
	Claims incurred																	
R0310	Gross - Direct Business				36,357	2,654	3,141	34,643	89,958	103			1,274					168,131
R0320	Gross - Proportional reinsurance accepted				33	0	0	1,037	498	0			0					1,567
R0330	Gross - Non-proportional reinsurance accepted																0	
R0340	Reinsurers' share				721	31	-2,041	16,940	13,467	110			1,115					30,342
R0400	Net				35,669	2,623	5,182	18,740	76,989	-6	0	0	159	0	0	0	0	139,356
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																0	
R0440	Reinsurers' share																	0
R0500	Net				0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0550	**Expenses incurred**				5,424	2,710	2,913	41,104	50,622	-21	0	0	332	0	0	0	0	103,084
R1200	**Other expenses**																	
R1300	**Total expenses**																	103,084

Appendix A *continued*

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross									0
R1420	Reinsurers' share									0
R1500	Net						0			0
	Premiums earned									
R1510	Gross									0
R1520	Reinsurers' share									0
R1600	Net						0			0
	Claims incurred									
R1610	Gross									0
R1620	Reinsurers' share									0
R1700	Net						0			0
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net						0			0
R1900	**Expenses incurred**						0			0
R2500	**Other expenses**									
R2600	**Total expenses**									0

Appendix A *continued*

Premiums, claims and expenses by line of business

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	**Top 5 countries (by amount of gross premiums written) - non-life obligations**					**Total Top 5 and home country**
R0010			**IE**					
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	186,528	32,018					218,545
R0120	Gross - Proportional reinsurance accepted	2,836	114					2,950
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	28,569	1,959					30,528
R0200	Net	160,795	30,173	0	0	0	0	190,968
	Premiums earned							
R0210	Gross - Direct Business	193,318	30,090					223,409
R0220	Gross - Proportional reinsurance accepted	2,455	93					2,548
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	28,277	2,010					30,286
R0300	Net	167,497	28,173	0	0	0	0	195,671
	Claims incurred							
R0310	Gross - Direct Business	144,347	22,613					166,960
R0320	Gross - Proportional reinsurance accepted	1,567	0					1,567
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	26,242	3,067					29,309
R0400	Net	119,673	19,546	0	0	0	0	139,219
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	87,820	14,132					101,952
R1200	**Other expenses**							
R1300	**Total expenses**							101,952

Appendix A *continued*

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	**Top 5 countries (by amount of gross premiums written) - non-life obligations**					**Total Top 5 and home country**
R1400			**IE**					
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross							0
R1420	Reinsurers' share							0
R1500	Net	0	0	0	0	0	0	0
	Premiums earned							
R1510	Gross							0
R1520	Reinsurers' share							0
R1600	Net	0	0	0	0	0	0	0
	Claims incurred							
R1610	Gross							0
R1620	Reinsurers' share							0
R1700	Net	0	0	0	0	0	0	0
	Changes in other technical provisions							
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net	0	0	0	0	0	0	0
R1900	**Expenses incurred**							0
R2500	**Other expenses**							
R2600	**Total expenses**							0

Appendix A *continued*

Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**										0						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole										0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**								3,341		3,341						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default										0						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re								3,341		3,341						
R0100	**Risk margin**								173		173						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate										0						
R0130	Risk margin										0						
R0200	**Technical provisions - total**								3,514		3,514						

Appendix A *continued*

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**				0	0	0	0	0	0			0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross				3,761	-397	-1,899	22,117	26,593	115			511					50,800
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				-800	-699	-789	-2,342	-1,045	12			338					-5,326
R0150	**Net Best Estimate of Premium Provisions**				4,560	303	-1,110	24,459	27,638	103			173					56,126
	Claims provisions																	
R0160	Gross				79,921	8,650	10,248	36,126	540,621	955			2,235					678,757
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				2,661	-360	863	-2,470	46,632	509			2,084					49,919
R0250	**Net Best Estimate of Claims Provisions**				77,260	9,010	9,385	38,596	493,989	447			151					628,837
R0260	**Total best estimate - gross**				83,682	8,253	8,349	58,243	567,213	1,071			2,746					729,557
R0270	**Total best estimate - net**				81,820	9,312	8,275	63,055	521,627	550			323					684,963
R0280	**Risk margin**				4,612	295	443	3,435	28,202	30			17					37,034
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**				88,294	8,548	8,792	61,678	595,415	1,100			2,763					766,590
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				1,862	-1,059	74	-4,812	45,586	521			2,423					44,594
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				86,432	9,607	8,718	66,490	549,829	580			341					721,996

Appendix A *continued*

Non-life Insurance claims

Total Non-life business *Accident Year*

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170 In Current year	C0180 Sum of years (cumulative)
		Development year												
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											3,507	3,507	3,507
R0160	N-9	25,921	27,850	22,577	16,586	17,278	17,984	6,872	3,714	6,627	12,053		12,053	157,462
R0170	N-8	32,169	30,891	27,481	23,110	18,154	13,835	14,635	6,353	7,393			7,393	174,021
R0180	N-7	35,025	43,549	34,651	30,655	35,780	18,073	28,463	6,845				6,845	233,042
R0190	N-6	56,561	42,813	27,208	29,962	35,538	34,324	8,534					8,534	234,940
R0200	N-5	30,797	30,136	25,909	24,909	34,723	12,182						12,182	158,656
R0210	N-4	21,455	28,321	22,739	17,672	13,709							13,709	103,896
R0220	N-3	17,365	32,620	26,631	19,711								19,711	96,326
R0230	N-2	24,837	87,725	17,410									17,410	129,972
R0240	N-1	42,467	36,745										36,745	79,213
R0250	N	40,952											40,952	40,952
R0260												Total	179,042	1,411,988

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360 Year end (discounted data)
		Development year											
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											85,626	85,125
R0160	N-9	0	0	0	0	0	0	0	0	0	7,633		7,579
R0170	N-8	0	0	0	0	0	0	0	0	15,915			15,756
R0180	N-7	0	0	0	0	0	0	0	50,547				50,367
R0190	N-6	0	0	0	0	0	0	23,104					22,908
R0200	N-5	0	0	0	0	0	41,693						41,275
R0210	N-4	0	0	0	0	50,219							49,686
R0220	N-3	0	0	0	85,250								84,334
R0230	N-2	0	0	102,518									101,408
R0240	N-1	0	129,926										128,661
R0250	N	92,470											91,657
R0260												Total	678,757

Appendix A *continued*

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	203,822	203,822		0	
R0030	Share premium account related to ordinary share capital	699	699		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	191,322	191,322			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	24,803				24,803
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	
R0290	**Total basic own funds after deductions**	420,646	395,843	0	0	24,803
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	Total ancillary own funds	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	420,646	395,843	0	0	24,803
R0510	Total available own funds to meet the MCR	395,843	395,843	0	0	
R0540	Total eligible own funds to meet the SCR	420,646	395,843	0	0	24,803
R0550	Total eligible own funds to meet the MCR	395,843	395,843	0	0	
R0580	**SCR**	313,249				
R0600	**MCR**	89,291				
R0620	**Ratio of Eligible own funds to SCR**	134.28%				
R0640	**Ratio of Eligible own funds to MCR**	443.32%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	420,646				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	229,324				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	191,322				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business					
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	4,324				
R0790	**Total Expected profits included in future premiums (EPIFP)**	4,324				

Appendix A *continued*

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	20,555		
R0020	Counterparty default risk	10,828		
R0030	Life underwriting risk	981		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	279,839		
R0060	Diversification	-20,856		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	291,348		

	Calculation of Solvency Capital Requirement	C0110
R0130	Operational risk	21,902
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	Solvency Capital Requirement excluding capital add-on	313,249
R0210	Capital add-ons already set	0
R0220	Solvency capital requirement	313,249
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCRNL Result	89,221

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	81,820	10,743
R0060	Other motor insurance and proportional reinsurance	9,312	5,104
R0070	Marine, aviation and transport insurance and proportional reinsurance	8,275	4,832
R0080	Fire and other damage to property insurance and proportional reinsurance	63,055	61,995
R0090	General liability insurance and proportional reinsurance	521,627	108,053
R0100	Credit and suretyship insurance and proportional reinsurance	550	0
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	323	241
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCRL Result	70

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	3,341	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	89,291
R0310	SCR	313,249
R0320	MCR cap	140,962
R0330	MCR floor	78,312
R0340	Combined MCR	89,291
R0350	Absolute floor of the MCR	3,159
R0400	**Minimum Capital Requirement**	89,291

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05/17