



**Travelers Insurance Company Ltd  
Report & Accounts 2007**



TRAVELERS INSURANCE COMPANY LIMITED  
*(formerly St Paul Travelers Insurance Company Limited)*

*Report and Accounts 2007*

CONTENTS

The Company	2
Chief Executive's Statement and Operational Review	3
Directors' Report	6
Profit and Loss Account: Technical	8
Profit and Loss Account: Non-Technical	9
Statement of Total Recognised Gains and Losses	10
Reconciliation of Movements in Shareholders' Funds	11
Balance Sheet	12
Notes to the Financial Statements	14
Report of the Auditors	29

## THE COMPANY

## CHIEF EXECUTIVE'S STATEMENT AND OPERATIONAL REVIEW

I am pleased to report a post tax operating profit of £64.5 million (2006: £73.4 million) on gross written premiums of £278.2 million (2006: £294.7 million).

Our core ongoing operations in the UK and Ireland achieved a combined ratio of 87.3% (2006: 75.0%). Our discontinued operations contributed an operating profit of £0.1 million (2006 £0.5 million).

Overall, the company achieved a combined ratio of 89.0% (2006: 76.2%). The decline in the combined ratio year on year principally reflects the impact of the UK summer floods, which cost the company £18.5 million, and a reduction in the level of prior year releases to £36.4 million, down from £45.3 million in 2006. Adjusting both years for the floods and prior year releases gives a combined ratio comparison of 96.8% for 2007 against 95.4% for 2006.

In the UK premiums were 2% down on 2006 at £234.0 million (2006: £238.9 million) against a background of increasingly competitive market conditions. Premium rates were off 5%. Pleasingly we achieved the highest renewal retention for many years of 88%, up from 85% in 2006.

In Ireland premiums fell 20.4% to €65.1 million, from €81.8 million. €6 million of this decline related to the deliberate non renewal of one large fronted case. However, the primary driver was our measured approach to an increasingly challenging underwriting environment as the market entered the fifth year of negative premium rate changes. Rates were off 11% in 2007, having reduced by 12% in 2006, and the environment for writing new business became increasingly tough as market share considerations seemed to be driving much of the competitor activity. Renewal retention was similarly a challenge at 77%, down from 81% in 2006.

The investment return was substantially up on 2006 levels at £54.6 million (2006: £26.9 million). During 2006 rising interest rates and expectations of further increases led to a £26 million fall in the market value of the fixed income portfolio during the year. During 2007 returns improved substantially aided by the rally in fixed income markets in the final months of the year, in response to expectations of slower economic growth, and the impact of continuing positive cash flow generated by the underlying operations. Invested assets are some £71 million up on the position as at 31 December 2006. Net assets increased by 21%, or £64.7 million, to £372.4 million, with no dividend payment being paid or proposed for 2007, leaving the company in a very strong position from a capital perspective.

The company's investment portfolio is wholly comprised of high quality corporate and government bonds. The average credit quality is AAA-. There is no direct exposure to Sub-Prime or Alt-A mortgage backed securities.

As at 31 December 2007 the company finalised a Part VII transfer of the portfolio of discontinued London Market business which had exposure to North American Environmental and asbestos liabilities. This portfolio was transferred to Unionamerica Insurance Company Limited, a fellow group company. This portfolio had previously been reinsured 100% with another fellow group company. This transaction had the impact of reducing both gross and reinsurance claims outstanding by £112.2 million.

## CHIEF EXECUTIVE'S STATEMENT AND OPERATIONAL REVIEW

continued

The highlights of the year included:

- In the UK, we opened new underwriting offices in Leeds and Manchester and launched new products for Marine Trades, Accountants PI and Media & Entertainment;
- We expanded the Xpress range of online solutions for SME business to include AutoXpress, CareXpress and PIXpress, which enable our supporting brokers to bind cover on smaller risks;
- We maintained our top three position for Solicitors' Professional Indemnity insurance;
- We renewed our affiliation agreement with the Royal Institution of Chartered Surveyors to offer risk management advice and support of members;
- In Ireland, we broadened our sales capabilities with the appointment of two regional development executives and launched new products for Entertainment and Contractors All Risk.

As of 1 February 2008 the company changed its name to Travelers Insurance Company Limited and adopted the trading name and red umbrella logo of its parent company, The Travelers Companies, Inc..

At the close of 2007 we find ourselves in a strong position. However, the market environment remains challenging. Operating margins are contracting as substantial upwards pressure on both loss and acquisition costs exist and there is no obvious evidence that premium rates will start to harden in the immediate future.

### PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the company are the risks inherent in trading in the insurance industry of premium rate and loss reserve adequacy, particularly in respect of long tail liability exposures, and the sufficiency and financial security of the reinsurance purchased. The increasing concentration of UK distribution in the hands of a number of broker consolidators who utilise their increasing leverage with the insurance capital suppliers is becoming a concern.

### ENVIRONMENT

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

### EMPLOYEES

At 31 December 2007 the company, through a fellow group subsidiary service company and on a shared basis with other group entities, employed 425 staff (2006 453).

The company is committed to policies which provide for selection and promotion based upon objective assessment of ability and experience free from discrimination on any grounds. Furthermore, the company considers fully all applications for employment irrespective of disabilities and ensures that persons with disabilities are not discriminated against in respect of training, career prospects and promotion.

## CHIEF EXECUTIVE'S STATEMENT AND OPERATIONAL REVIEW

continued

Staff development is monitored by way of continual assessment and appraisal. A programme of training courses is made available to all members of staff and financial assistance is given to those who wish to pursue professional qualifications in order to ensure opportunity for advancement. The company is also keen to encourage the continued participation of staff in the performance and development of the company. A savings related stock option scheme is promoted by the company and staff are encouraged to voice their opinions through an Employee Forum and staff surveys.

### CONCLUSION

It was a good year for the company and we made a substantial contribution to group operating profits. I extend my sincere thanks and best wishes to all of my colleagues who worked so hard over the period in order to deliver these excellent results. We can look forward to the challenges and opportunities of 2008 with confidence.

MP Hudson

*Chief Executive*

*Travelers Insurance Company Limited*

26 March 2008

## DIRECTORS' REPORT

The directors present their annual report together with the financial statements for the 12 months ended 31 December 2007.

### PRINCIPAL ACTIVITY

The principal activity of the company is the underwriting of general insurance business.

### BUSINESS REVIEW

A review of the company's business is set out in the Chief Executive's Statement on page 3 and the results for the financial year are set out on pages 8 and 9.

### DIRECTORS AND DIRECTORS' INTERESTS

All the directors set out on page 2 served throughout the year, with the exception of Sir John Carter who was appointed as non executive chairman on 15 June 2007.

None of the directors had a beneficial interest in the shares of any of the Travelers Group (formally known as "St Paul Travelers Group") companies in the United Kingdom. Under the provisions of the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985, the directors of the company are exempt from disclosing any interests in the shares of the ultimate holding company.

### DISCLOSURE OF INFORMATION TO THE AUDITORS

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

### AUDIT COMMITTEE

The Board has an established Audit Committee (the "Committee"). The Committee meets at least three times a year. The Committee comprises the non-executive directors. Mr Boleat is Chairman of the Committee. The Committee's terms of reference require it to take an independent view of the company's external financial reporting, accounting policies and practices. It also considers the appointment and fees, both audit and non-audit, of the external auditors. The Committee also reviews the annual plans of both the external and internal auditors and reviews reports received from both in respect of their findings. The Chief Financial Officer, Head of Internal Audit and the Company Secretary usually attend the Committee meetings. At least once a year the Committee meets, both on its own and with the external auditors, without any executive management present.

### POST BALANCE SHEET EVENT

Subsequent to the year end, on 1st February 2008, the company changed its name to Travelers Insurance Company Limited.

## DIRECTORS' REPORT

continued

### INDEMNITY INSURANCE

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

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

By order of the board  
Alistair Gunn *Secretary*  
26 March 2008

60 Gracechurch Street  
London EC3V 0HR



TRAVELERS INSURANCE COMPANY LIMITED  
(formerly St Paul Travelers Insurance Company Limited)

**PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS**

for the twelve months ended 31 December 2007

	Note	2007 £000	2006 £000
Gross premiums written – continuing business		278,220	294,712
Gross premiums written – discontinued business		4	30
<b>GROSS PREMIUMS WRITTEN</b>	<b>3</b>	<b>278,224</b>	<b>294,742</b>
Outward reinsurance premiums		(46,398)	(66,375)
<b>NET PREMIUMS WRITTEN</b>		<b>231,826</b>	<b>228,367</b>
Change in the gross provision for unearned premiums	21	9,500	(1,567)
Change in the provision for unearned premiums, reinsurers' share	21	(9,952)	(256)
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>		<b>231,374</b>	<b>226,544</b>
Allocated investment return transferred from the non-technical account		54,558	26,955
Claims paid:			
Gross amount		(289,061)	(142,337)
Reinsurers' share		141,085	28,881
		(147,976)	(113,456)
<b>CHANGE IN THE PROVISION FOR CLAIMS:</b>			
Gross amount	21	135,599	15,861
Reinsurers' share	21	(132,547)	(17,059)
		3,052	(1,198)
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		<b>(144,924)</b>	<b>(114,654)</b>
Net operating expenses	6	(61,209)	(56,185)
Change in claims equalisation provision	20, 21	(1,749)	(1,998)
<b>BALANCE ON THE TECHNICAL ACCOUNT</b>	<b>2</b>	<b>78,050</b>	<b>80,662</b>
Analysed between:			
Continuing business		77,960	80,098
Discontinued business		90	564
		<b>78,050</b>	<b>80,662</b>

TRAVELERS INSURANCE COMPANY LIMITED  
(formerly St Paul Travelers Insurance Company Limited)

**PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT**

*for the twelve months ended 31 December 2007*

	Note	2007 £000	2006 £000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		78,050	80,662
Investment income	5	58,557	54,828
Unrealised losses on investments		(3,241)	(26,676)
Investment expenses and charges	7	(758)	(1,197)
Allocated investment return transferred to the general business technical account		54,558 (54,558)	26,955 (26,955)
Other charges	8	(1,648)	(1,141)
OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	9	76,402	79,521
Tax on profit on ordinary activities	11	(11,866)	(6,147)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX FOR THE FINANCIAL YEAR	19	64,536	73,374

*TRAVELERS INSURANCE COMPANY LIMITED*  
*(formerly St Paul Travelers Insurance Company Limited)*

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

*for the twelve months ended 31 December 2007*

	Note	2007 £000	2006 £000
PROFIT FOR THE FINANCIAL YEAR		64,536	73,374
Currency translation gains/(losses) on foreign currency net investments	19	144	(895)
<b>Total recognised gains relating to the year</b>		<b>64,680</b>	<b>72,479</b>

In accordance with the amendment to FRS 3 published in June 1999 no note of historical cost profits has been prepared as the company's only material gains and losses on assets relate to the holding and disposal of investments.

*TRAVELERS INSURANCE COMPANY LIMITED*  
*(formerly St Paul Travelers Insurance Company Limited)*

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

*for the twelve months ended 31 December 2007*

	Note	2007 £000	2006 £000
PROFIT FOR THE FINANCIAL YEAR		64,536	73,374
Other gains/(losses) relating to the year	19	144	(895)
Net addition to shareholders' funds		64,680	72,479
Opening shareholders' funds		307,708	235,229
<b>CLOSING SHAREHOLDERS' FUNDS</b>		<b>372,388</b>	<b>307,708</b>

TRAVELERS INSURANCE COMPANY LIMITED  
(formerly St Paul Travelers Insurance Company Limited)

**BALANCE SHEET**

as at 31 December 2007

	Note	2007 £000	2006 £000
<b>ASSETS</b>			
INVESTMENTS			
Other financial investments	12	1,156,178	1,088,991
		1,156,178	1,088,991
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	21	24,954	34,821
Claims outstanding	21	99,220	236,583
		124,174	271,404
DEBTORS			
Debtors arising out of insurance operations	13	34,261	44,640
Debtors arising out of reinsurance operations	14	3,430	1,515
Other debtors	15	578	2,044
		38,269	48,199
DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Loan to group undertaking	16	4,800	—
OTHER ASSETS			
Deferred tax asset	17	164	7,547
Cash at bank and in hand		20,187	15,616
		20,351	23,163
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		26,273	20,757
Deferred acquisition costs	21	14,824	14,961
		41,097	35,718
<b>TOTAL ASSETS</b>		<b>1,384,869</b>	<b>1,467,475</b>

TRAVELERS INSURANCE COMPANY LIMITED  
(formerly St Paul Travelers Insurance Company Limited)

**BALANCE SHEET**

as at 31 December 2007

CONTINUED

	Note	2007 £000	2006 £000
<b>LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	203,822	203,822
Share premium account	19	699	699
Profit and loss account	19	167,867	103,187
Shareholders' funds attributable to equity interests		372,388	307,708
<b>TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	21	151,078	158,095
Claims outstanding	21	770,657	892,568
Claims equalisation provision	20,21	9,935	8,186
		931,670	1,058,849
<b>CREDITORS</b>			
Creditors arising out of insurance operations		3,386	2,888
Creditors arising out of reinsurance operations		32,047	42,678
Other creditors including taxation and social security	22	20,743	24,805
		56,176	70,371
<b>CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b>			
Loan from parent undertaking	23	20,920	25,830
<b>Total Creditors</b>		<b>77,096</b>	<b>96,201</b>
<b>ACCRUALS AND DEFERRED INCOME</b>	24	3,715	4,717
<b>TOTAL LIABILITIES</b>		<b>1,384,869</b>	<b>1,467,475</b>

These financial statements were approved by the board of directors on 26 March 2008 and were signed on its behalf by:

MP Hudson  
Chief Executive

26 March 2008

## NOTES

(Forming part of the financial statements)

### 1(a) BASIS OF PREPARATION

The financial statements have been prepared in accordance with the provisions of Section 255 of, and part 1 of Schedule 9A to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable UK Accounting Standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended December 2006).

As the company is a wholly owned subsidiary of The Travelers Companies, Inc., the company has taken advantage of the exemption contained in FRS 8 and therefore not disclosed transactions or balances with entities which form part of the Group. The consolidated financial statements of The Travelers Companies, Inc., within which this company is included, can be obtained from this company's registered office.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that The Travelers Companies, Inc. includes the company in its own published consolidated financial statements, which include a cash flow statement.

### 1(b) ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements.

#### *Basis of accounting for underwriting activities*

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

#### *Premiums*

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

Premiums written include estimates for "pipeline" premiums and adjustments to premiums written in prior accounting periods. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance premiums.

#### *Unearned premiums*

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

#### *Acquisition costs*

Acquisition costs comprise the expenses of acquiring the insurance policies written during the financial year. Acquisition costs are charged to the accounting periods in

## NOTES

CONTINUED

which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

### *Claims incurred*

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

### *Claims outstanding*

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date, whether reported or not, together with related internal and external claims handling expenses. Where applicable, prudent estimates are made for anticipated reinsurance and salvage and subrogation recoveries.

### *Claims outstanding estimation techniques*

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

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

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

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

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

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



## NOTES

CONTINUED

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.

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 estimation of the gross provisions for asbestosis, environmental pollution and industrial disease claims is subject to a range of uncertainties that are greater than those of other classes. As a consequence the company employs specialist techniques to determine provisions, including using the knowledge of external experts. These losses were wholly reinsured with a fellow group company and have no impact on the company's net results and as at 31 December 2007 were transferred to a fellow group company by way of a Part V11 transfer and hence this element of uncertainty was eliminated as at the year end.

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.

### *Equalisation provisions*

Equalisation provisions have been established in accordance with the requirements of chapter 1.4 of the Prudential Source Book of Insurers.

### *Unexpired risks*

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

### *Investment income, expenses and charges*

Investment income is accounted for on the accruals basis. Realised gains or losses represent the difference between net sales proceeds and purchase price.

### *Unrealised gains and losses on investments*

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price.

Unrealised gains and losses on investments are subject to current taxation.

### *Allocation of investment return*

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

## NOTES

CONTINUED

### *Investments*

Listed investments are stated at market value, at bid price.

### *Foreign currencies*

Foreign currency transactions relating to the UK operations are translated into sterling using the rate of exchange at the date of the transaction. Foreign currency transactions of overseas branches are translated into sterling at the average rate of exchange for the relevant month. Balance sheet items held by the overseas branches are translated into sterling at the rate of exchange ruling at the balance sheet date.

Exchange adjustments arising from the translation of foreign currency net investments in the overseas branches are dealt with in reserves. All other foreign exchange differences are taken to the non-technical account.

### *Taxation*

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

## 2. CONTINUING AND DISCONTINUED OPERATIONS

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

Discontinued operations also include the run-off of certain policies written in the United Kingdom having exposure to North American environmental and asbestos liabilities. These policies were 100% reinsured with a fellow group company. As at 31 December 2007 these policies, and the corresponding reinsurance asset, were transferred to Unionamerica Insurance Company Limited, a fellow group company, by way of a Part VII transfer. The amount of the gross liabilities transferred and the corresponding reinsurance asset was £112,212,000.

**TRAVELERS INSURANCE COMPANY LIMITED**  
(formerly St Paul Travelers Insurance Company Limited)

**NOTES**

CONTINUED

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

	2007		2006	
	Continuing operations £000	Discon- tinued operations £000	Continuing operations £000	Discon- tinued operations £000
Net premiums written	231,631	195	228,585	(218)
Net premiums earned	231,181	193	226,585	(41)
Allocated investment return	50,377	4,181	23,484	3,471
	281,558	4,374	250,069	3,430
Claims paid – Part VII transfer	—	(112,212)	—	—
Claims paid – other	(129,604)	(47,215)	(120,144)	(22,193)
Claims paid – gross amount	(129,604)	(150,457)	(120,144)	(22,193)
Claims paid – Part VII transfer	—	112,212	—	—
Claims paid – other	13,950	14,923	21,533	7,348
Claims paid – reinsurers’ amount	13,950	127,135	21,533	7,348
Change in provisions for claims – gross amount	(29,072)	164,671	(11,709)	27,570
Change in provisions for claims – reinsurers’ amount	2,803	(135,350)	(2,927)	(14,132)
Claims incurred, net of reinsurance	(141,923)	(3,001)	(113,247)	(1,407)
Net operating expenses	(59,926)	(1,283)	(54,726)	(1,459)
Claims equalisation reserve	(1,749)	—	(1,998)	—
Balance on the technical account	77,960	90	80,098	564
Investment income	52,541	6,016	47,007	7,821
Unrealised losses on investments	(1,547)	(1,694)	(22,680)	(3,996)
Investment expenses and charges	(617)	(141)	(843)	(354)
	50,377	4,181	23,484	3,471
Allocated investment return transferred to the general business technical account	(50,377)	(4,181)	(23,484)	(3,471)
Other charges	(1,648)	—	(1,141)	—
Operating profit on ordinary activities before tax	76,312	90	78,957	564

TRAVELERS INSURANCE COMPANY LIMITED  
(formerly St Paul Travelers Insurance Company Limited)

**NOTES**

CONTINUED

3. SEGMENTAL INFORMATION

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

	2007			2006		
	Gross premiums written £000	Profit before tax £000	Net assets £000	Gross premiums written £000	Profit before tax £000	Net assets £000
<i>By geographical segment</i>						
United Kingdom	234,041	58,366	309,224	238,923	65,194	252,770
Republic of Ireland	44,180	14,727	39,971	55,816	13,130	28,461
Overseas branches in run-off	3	3,309	23,193	3	1,197	26,477
Total	278,224	76,402	372,388	294,742	79,521	307,708

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

3. (b) Analysis of gross direct written premiums

	2007 £000	2006 £000
Resulting from contracts concluded by the company:		
In the EU member state of its head office	234,041	238,923
In other EU member states	44,183	55,824
Outside EU member states	—	(5)
	278,224	294,742

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

	Gross premiums written £000	Gross premiums earned £000	2007 Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Motor	33,014	33,934	(26,123)	(8,091)	(4,595)
Fire and other					
damage to property	83,335	87,496	(38,752)	(18,346)	(24,141)
Third party liability	156,598	161,010	(92,608)	(35,744)	(7,605)
Credit and Suretyship	786	1,025	(352)	(66)	(612)
Miscellaneous	4,491	4,259	(4,378)	(917)	(148)
	278,224	287,724	(162,213)	(63,164)	(37,101)
Reinsurance	—	—	8,751	—	(8,756)
	278,224	287,724	(153,462)	(63,164)	(45,857)

TRAVELERS INSURANCE COMPANY LIMITED  
(formerly St Paul Travelers Insurance Company Limited)

**NOTES**

CONTINUED

	Gross premiums written £000	Gross premiums earned £000	2006 Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Motor	35,863	36,819	(30,402)	(8,054)	3,739
Fire and other damage to property	89,346	83,696	(33,159)	(15,691)	(16,901)
Third party liability	165,331	167,805	(63,847)	(34,063)	(34,294)
Credit and Suretyship	349	1,222	2,016	17	(3,270)
Miscellaneous	3,853	3,633	1,103	(816)	(3,583)
	294,742	293,175	(124,289)	(58,607)	(54,309)
Reinsurance	—	—	(2,187)	—	1,992
	294,742	293,175	(126,476)	(58,607)	(52,317)

Commission payable in respect of direct insurance amounted to £22,577,000 (2006: £21,963,000).

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

4. PRIOR YEARS' CLAIMS PROVISIONS

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

	2007 £000	2006 £000
Motor	377	911
Fire and other damage to property	7,641	9,289
General liability	28,343	36,077
Miscellaneous	21	(755)
Reinsurance	(5)	(265)
	36,377	45,257

5. INVESTMENT INCOME

	2007 £000	2006 £000
Income from investments	58,549	54,540
Gains on the realisation of investments	8	288
	58,557	54,828

TRAVELERS INSURANCE COMPANY LIMITED  
(formerly St Paul Travelers Insurance Company Limited)

**NOTES**

CONTINUED

6. NET OPERATING EXPENSES

	2007	2006
	£000	£000
Acquisition costs	29,532	28,814
Change in gross deferred acquisition costs	199	(240)
	29,731	28,574
Administrative expenses	33,433	30,033
Gross operating expenses	63,164	58,607
Reinsurance commissions and profit participation	(1,523)	(2,194)
Change in deferred reinsurance commission	(432)	(228)
	61,209	56,185

7. INVESTMENT EXPENSES AND CHARGES

	2007	2006
	£000	£000
Investment management expenses	683	633
Losses on the realisation of investments	75	564
	758	1,197

8. OTHER (CHARGES)/INCOME

	2007	2006
	£000	£000
Foreign exchange (loss)/gain	(207)	46
Loan interest	(1,441)	(1,187)
	(1,648)	(1,141)

9. OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2007	2006
	£000	£000
<i>Operating profit on ordinary activities before tax is stated after crediting</i>		
Income from listed investments	57,287	53,530
<i>after charging</i>		
Auditors' remuneration:		
Audit of these financial statements	142	127
Other services pursuant to legislation	50	52
Other services relating to taxation	39	56

*TRAVELERS INSURANCE COMPANY LIMITED*  
(formerly *St Paul Travelers Insurance Company Limited*)

**NOTES**

CONTINUED

10. REMUNERATION OF DIRECTORS

	2007	2006
	£000	£000
Directors' fees	92	102
Directors' emoluments	732	721
Company contributions to money purchase schemes	36	37

The emoluments of the highest paid director for the year were £232,922 (2006: £231,935). The highest paid director was a member of a defined benefit scheme. This scheme was frozen on 1 April 2003. The amount of his accrued pension at the end of the year was £73,507. The highest paid director in 2006 was a member of a money purchase scheme. Employer contributions for this director in 2006 were £11,322.

	Number of directors	
	2007	2006
Retirement benefits are accruing to the following number of directors:		
Money purchase schemes	5	5
Defined benefit schemes	0	0
The number of directors who exercised share options was	5	1
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	0	0

11. TAXATION

11. (a) Analysis of charge in the year

	2007	2006
	£000	£000
<i>United Kingdom Corporation Tax</i>		
United Kingdom Corporation Tax at 30% (2006: 30%)	13,862	10,812
Adjustment in respect of prior periods	(9,379)	1,235
Double taxation relief	4,483 (1,400)	12,047 (2,430)
	3,083	9,617
<i>Foreign tax</i>		
Current tax on income for the period	1,400	2,430
Total current tax	4,483	12,047
Deferred tax charge/(credit) (note 17)	7,383	(5,900)
Tax on profit on ordinary activities	11,866	6,147

TRAVELERS INSURANCE COMPANY LIMITED  
(formerly St Paul Travelers Insurance Company Limited)

**NOTES**

CONTINUED

11. (b) Factors affecting the current tax charge

The current tax charge for the year is lower than the standard rate of corporation tax in the UK at 30% (2006: 30%). The differences are explained below:

	2007 £000	2006 £000
Profit on ordinary activities before tax	76,402	79,521
Current tax at 30% (2006: 30%)	22,921	23,856
Expenses previously not deductible now deductible for tax purposes	(1,497)	(273)
Group relief not paid for S107 disclaimer reversing	—	(12,771)
	(7,562)	—
United Kingdom Corporation Tax	13,862	10,812

12. OTHER FINANCIAL INVESTMENTS

	Market Value 2007 £000	Market Value 2006 £000	Cost 2007 £000	Cost 2006 £000
Debt securities and other fixed income securities	1,156,070	1,088,884	1,193,439	1,123,012
Deposits with credit institutions	108	107	108	107
	1,156,178	1,088,991	1,193,547	1,123,119
Included in debt securities and other fixed income securities:				
Listed on the London Stock Exchange	1,121,548	1,053,710	1,156,219	1,085,890
Listed on other investment exchanges	34,522	35,174	37,220	37,122
	1,156,070	1,088,884	1,193,439	1,123,012

13. DEBTORS ARISING OUT OF INSURANCE OPERATIONS

	2007 £000	2006 £000
Amounts owed by intermediaries	26,792	28,207
Amounts owed by policyholders	7,469	16,433
	34,261	44,640



*TRAVELERS INSURANCE COMPANY LIMITED*  
(formerly *St Paul Travelers Insurance Company Limited*)

**NOTES**

CONTINUED

14. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2007	2006
	£000	£000
Amounts owed by reinsurers	3,430	1,515
	3,430	1,515

15. OTHER DEBTORS

	2007	2006
	£000	£000
Amounts owed by group undertakings	70	818
Tax recoverable	191	—
Other debtors	317	1,226
	578	2,044

16. DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2007	2006
	£000	£000
Loan to group undertaking	4,800	—

The loan is to Travelers Management Limited (formerly St. Paul Travelers Management Limited). It was used to fund the purchase of a property from a fellow group undertaking and is secured against that property. Interest is payable quarterly, calculated at one percent above commercial bank rate. The notice period for the loan repayment is twelve months.

17. DEFERRED TAX ASSET

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

	2007		2006	
	Provided	Unprovided	Provided	Unprovided
	£000	£000	£000	£000
Loss reserves disclaimed	—	—	5,895	—
Expense provision	164	—	180	—
Unpaid loan interest	—	—	1,472	—
	164	—	7,547	—

*TRAVELERS INSURANCE COMPANY LIMITED*  
(formerly *St Paul Travelers Insurance Company Limited*)

**NOTES**

CONTINUED

17. (b) Movement in provided deferred tax

	2007	2006
	£000	£000
Deferred tax asset brought forward	7,547	1,647
Loss reserves (utilised)/disclaimed	(5,895)	5,895
Expense provision	(16)	(351)
Loan interest accrual	(1,472)	356
Deferred tax asset carried forward	164	7,547

18. CALLED UP SHARE CAPITAL

	2007	2006
	£000	£000
<i>Authorised</i>		
300,000,000 (2006: 300,000,000) ordinary shares of £1 each	300,000	300,000
<i>Allotted, called up and fully paid</i>		
203,822,115 (2006: 203,822,115) ordinary shares of £1 each	203,822	203,822

19. RESERVES

	Share premium account £000	Profit and loss account £000	Total £000
At beginning of year	699	103,187	103,886
Profit for the year	—	64,536	64,536
Currency translation differences on foreign currency net investments	—	144	144
At end of year	699	167,867	168,566

20. EQUALISATION PROVISIONS

Equalisation provisions are established in accordance with the requirements of chapter 1.4 of the Prudential Source Book of Insurers. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of decreasing shareholders' funds by £9,935 000 (2006: £8,186,000). The movement in the equalisation provisions during the year resulted in a decrease in the general business technical account result and a reduction in the profit before taxation of £1,749,000 (2006: £1,998,000).

TRAVELERS INSURANCE COMPANY LIMITED  
(formerly St Paul Travelers Insurance Company Limited)

**NOTES**

CONTINUED

21. TECHNICAL PROVISIONS AND DEFERRED ACQUISITION COSTS

	Provision for unearned premiums £000	Claims outstanding £000	Equalisation provision £000	Total £000
<i>Gross amount</i>				
At beginning of the year	158,095	892,568	8,186	1,058,849
Currency translation differences	2,483	13,688	—	16,171
Movement in the provision	(9,500)	(135,599)	1,749	(143,350)
At end of the year	151,078	770,657	9,935	931,670
<i>Reinsurance amount</i>				
At beginning of the year	(34,821)	(236,583)	—	(271,404)
Currency translation differences	(85)	4,816	—	4,731
Movement in the provision	9,952	132,547	—	142,499
At end of the year	(24,954)	(99,220)	—	(124,174)
Net technical provisions				
At end of the year	126,124	671,437	9,935	807,496
At beginning of the year	123,274	655,985	8,186	787,445

Technical provisions and deferred acquisition costs

	2007 £000	2007 £000	2006 £000	2006 £000
Net technical provisions at end of year		807,496		787,445
Deferred acquisition costs				
– gross	(14,824)		(14,961)	
– reinsurance commissions	545		1,450	
		(14,279)		(13,511)
Net insurance funds		793,217		773,934

22. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2007 £000	2006 £000
Insurance premium taxes	2,868	3,737
Amounts owed to group undertakings	10,925	20,874
Tax payable	6,909	173
Other creditors	41	21
	20,743	24,805

## NOTES

CONTINUED

### 23. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2007 £000	2006 £000
Loan from parent undertaking		
– Loan principal due on maturity	20,920	24,641
– Loan interest due	—	1,189
	20,920	25,830

The loan principal and interest relate to a subordinated loan payable to The Travelers Companies, Inc. The loan can be utilised for prudential solvency requirements and as such the consent of the United Kingdom Financial Services Authority is required prior to any repayment, except where the lender requires full or part repayment with not less than 5 years' notice. The rate of interest applicable to the loan is twelve month British pounds LIBOR.

### 24. ACCRUALS AND DEFERRED INCOME

	2007 £000	2006 £000
Reinsurers' share of deferred acquisition costs	545	1,450
Accrued expenses	3,170	3,267
	3,715	4,717

### 25. PENSIONS

The company is one of a number of group companies bearing the costs of a pension scheme providing benefits based on final pensionable pay. This scheme was frozen with effect from 1 April 2003, whereby no further benefits were accrued by the members. Because the company is unable to identify its share, as permitted by FRS 17 'Retirement benefits', the scheme will be accounted for by the company as if the scheme was a defined contribution scheme. The latest full actuarial valuation was carried out as at 1 April 2005, updated for FRS 17 purposes to 31 December 2007, by a qualified independent actuary.

The full actuarial valuation at 1 April 2005 identified a deficiency of scheme assets of £702,000. Subsequent to 1 April 2005 further contributions of £880,000 have been paid into the scheme. Following the valuation and these additional contributions no further contributions are planned to be made to the scheme.

The updated valuation for FRS 17 purposes to 31 December 2007 identified a surplus of scheme assets of £4,221,000 (2006: surplus of £2,927,000).

The pension charge for the group defined benefit scheme for the year was £nil (2006: £nil).

## NOTES

CONTINUED

### 26. RELATED PARTY TRANSACTIONS

The company has a management agreement with Travelers Management Limited, a fellow group undertaking, which employs all the personnel and provides a full payroll and expense processing service. All pension disclosures relating to these personnel are available in the accounts of Travelers Management Limited. The total expenses incurred by Travelers Management Limited and recharged to the company during the year were £41,260,151 (2006: £40,290,310).

### 27. CONTINGENT LIABILITIES

In the normal course of business letters of credit to the value of £3,058,842 (2006: £3,394,868) have been issued to policy holders against insurance liabilities. £nil (2006: £155,376) of these letters of credit are secured against bank deposits. The remaining letters of credit are guaranteed by the ultimate parent company.

The company has also guaranteed lease commitments of a fellow subsidiary company relating to the main operating premises in the United Kingdom of £1,234,800 annually. This lease expires in 2016.

The company has no other contingent liabilities other than those arising out of insurance contracts entered into in the ordinary course of business.

### 28. POST BALANCE SHEET EVENT

Subsequent to the year end, on 1st February 2008, the company changed its name to Travelers Insurance Company Limited.

### 29. IMMEDIATE AND ULTIMATE PARENT COMPANY

The immediate and ultimate parent undertaking of the company is The Travelers Companies, Inc., a company registered in the United States. Copies of The Travelers Companies, Inc. accounts can be obtained from this company's registered office, 60 Gracechurch Street, London EC3V 0HR.

### 30. PARENT COMPANY GUARANTEE

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

### 31. SUBSIDIARY COMPANY

Under s22A of the Companies Act 1985, for accounting periods beginning or after 1 January 2005 an exemption from preparing consolidated accounts is available, subject to certain conditions. Following an assessment of these conditions it is appropriate for Travelers Insurance Company Ltd to take advantage of the exemption to prepare consolidated accounts and therefore these financial statements are for the company only. Travelers Professional Risks Limited (formerly St Paul Travelers Professional Risks Limited), a wholly owned subsidiary of Travelers Insurance Company Limited, has therefore not been consolidated in these accounts. The company had net assets at 31 December 2007 of £134,790 (2006 £72,002).

## REPORT OF THE INDEPENDENT AUDITORS KPMG Audit Plc

TO THE MEMBERS OF TRAVELERS INSURANCE COMPANY LIMITED

We have audited the financial statements of Travelers Insurance Company Limited for the year ended 31 December 2007 which comprise of The Profit and Loss Account, The Statement of Total Recognised Gains and Losses, The Reconciliation of Movements in Shareholders' Funds, The Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with the applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

## REPORT OF THE INDEPENDENT AUDITORS KPMG Audit Plc

continued

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### EQUALISATION PROVISION

Our evaluation of the presentation of information in the financial statements has regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2007, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in notes 20 and 21 respectively.

### OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with the UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

*Chartered Accountants*

*Registered Auditor*

*8 Salisbury Square*

*London EC4Y 8BB*

26 March 2008









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

**travelers.co.uk**

Authorised and regulated by the Financial Services Authority

TRV0255 03/08