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The Company

Directors

| | |
|-------------------------|--|
| Sir John Carter | (Independent Non-Executive) |
| Anthony Coughlan | (Independent Non-Executive) |
| Gary Dibb | (Independent Non-Executive) |
| Paul Eddy | (Non-Executive) |
| Mike Gent | (Executive) |
| Kevin Smith | (Chairman) |
| Matthew Wilson | (Chief Executive Officer) |
| Maria Olivo | (Executive) (appointed 7 March 2019) |
| Graham McKean | (Independent Non-Executive) (resigned 9 July 2019) |
| Sean Genden | (Non-Executive) (resigned 9 July 2019) |

Company Secretary

John Abramson

Registered Office

With effect from 20 March 2020 the Company has changed its registered office from:

23-27 Alie Street,
London E1 8DS

to:

One Creechurch Place, Creechurch Lane
London EC3A 5AF

Registered in England No 1034343

Bankers

National Westminster Bank Plc
Citibank NA
Barclays Bank Plc

Auditor

KPMG LLP

Strategic Report of the Directors

The Directors of Travelers Insurance Company Limited (the “Company”) present their strategic report for the year ended 31 December 2019.

Principal activity

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

Financial results

Travelers Insurance Company Limited reported a profit of £4.0m in 2019 (2018 £4.1m) and a combined ratio of 103.7% (2018 106.4%). The Company benefited from significant favourable prior year reserve development in 2019 of £20.8m (2018 £4.1m), in part due to the change in the Ogden discount rate from minus 0.75% to minus 0.25%. Excluding favourable prior year reserve development the combined ratio was 112.3% (2018 108.3%). The deterioration year on year is driven by an elevated level of large property losses.

Gross written premiums increased by 13.8% to £306.8m (2018 £269.6m). We have seen strong growth in our professional risks book driven by our Solicitors and Directors and Officers accounts, in large part driven by rate which has exceeded 15% in the year. The growth and a continued focus on expense management has led to a further reduction in the expense ratio by 3.3pts to 40.3% (2018 43.6%).

The investment return deteriorated to £12.1m (2018 £16.5m), driven by a higher level of realised investment losses as higher yielding bonds acquired in a low interest rate environment matured during the year. We continue to invest in high quality corporate and government bonds with an average credit quality of AA (2018 AA). We expect low investment returns to persist for the foreseeable future. Investments under management totalled £1.1bn (2018 £1.1bn).

Trading environment

The trading environment remained challenging during 2019. However, the rating environment has hardened significantly on the professional risks book during the year and there were signs in the second half of the year that the market was beginning to turn in the UK commercial middle market. Our focus during 2020 will be to continue to develop our specialty products and our customer service proposition to grow our book, whilst optimising the opportunity presented by the hardening market to deliver a strong underwriting profit.

Capital management

The Company’s financial strength remains strong with net assets improving during the year to £513.9m (2018 £465.2m). As of 16 April 2020 the Company’s financial strength ratings are A++ (superior) from AM Best and AA from Standard and Poor’s.

During 2019 the Company did not pay a dividend (2018 £nil).

Brexit

The Company has historically traded in Europe through its branch in Ireland and by writing business on a freedom of services basis to support its UK and Ireland insureds’ exposures in the European Union (“EU”). Approximately 14% of the Company’s gross written premiums was written in the EU, excluding the UK, the majority of which was written through its branch in Ireland. In December 2017 we announced our intention to establish a new subsidiary in Ireland, subject to receiving all necessary regulatory approvals.

This new subsidiary, Travelers Insurance Designated Activity Company (“TIDAC”), received its authorisation from the Central Bank of Ireland, the insurance regulatory authority, on the 28 January 2019 and began trading on 1 April 2019. TIDAC is a wholly owned subsidiary of the Company. During the year the Company provided capital to TIDAC totalling £53.4m to further support its capital requirements.

TIDAC cedes 80% of its business to the Company by way of a whole account quota share reinsurance agreement.

Part VII transfers

On 28 February 2019 all of the business of Travelers Casualty and Surety Company of Europe Limited was transferred to the Company via a business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The business transferred is 100% reinsured with other Travelers group companies.

On 1 October 2019 the business written through the Company’s branch in Ireland, its run-off branches in Netherlands, France and Germany, and the associated gross and ceded technical balances were transferred to TIDAC via a business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The business transferred was then reinsured back to the Company by way of the 80% quota share reinsurance agreement.

See note 32 for more information on both transfers.

Key Performance Indicators (KPIs)

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

Subsequent events

Following year end, a global pandemic was declared due to the spread of a coronavirus (“COVID-19”). COVID-19 has already caused significant investment market uncertainty and volatility, supply chain interruptions and is expected to significantly disrupt the global economy. We currently do not expect that insured losses related to COVID-19 will have a material impact on the Company’s financial condition and due to the nature of our investment portfolio, we believe we are well placed to withstand investment market volatility. However, the length and depth of

Strategic Report of the Directors *continued*

the disruption to the economy is a concern and we will be monitoring developments closely. Economic downturns and financial disruptions in the past have resulted in, among other things, decreased business volumes, reduced valuations on the investment portfolio and heightened credit risk which can impact both the Company's investment portfolio and its insurance operations. In addition, declines in interest rates may lead to declines in fixed income yields, which would adversely impact the Company's net investment income from future investment activity. Also, the Company is subject to the risk of court cases and legislative or regulatory action interpreting or mandating coverage for business interruption claims which insurance policies do not currently cover. Our focus is the well-being of our staff and our ability to continue to provide service to our insureds. The Company is taking appropriate actions to safeguard employees and ensure it can continue to serve its insureds.

Principal Risks and Uncertainties

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

Insurance risk

Insurance risk relates to underwriting, claims management and the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. The Company manages insurance risk by setting an appetite annually through the business planning process, which sets down targets for underwriting volumes, pricing sufficiency and retentions by class of business. Management monitors performance against the business plan throughout the year.

The Company uses catastrophe modelling software to model maximum probable loss from catastrophe exposed business. Reserve adequacy is monitored through a quarterly internal actuarial review. The Underwriting Committee oversees underwriting risk and the Finance Committee oversees reserving risk.

Credit risk

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

Market Risk

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

Operational Risk

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

Regulatory Risk

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

Conduct Risk

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

Liquidity Risk

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

Section 172 statement

The Directors, individually and collectively, have considered the requirements of Section 172 of the Companies Act to perform their duties in good faith and in a way most likely to promote the success of the Company for the benefit of its shareholder having regard to the stakeholders and matters set out in S172 (a) (a-f) of Companies Act 2006. The paragraphs below set out how the Directors fulfil their duties under the Section 172 requirements.

Consequences of any decision in the long term

The Company has a business plan with a three-year horizon setting out the financial and capital implications of strategic and other business decisions. The Board considers this plan annually. This plan ensures that over the plan horizon the regulatory capital coverage is above the minimum regulatory capital target and this is an important factor in the Board approving this plan.

The Board has established an Enterprise Risk Management framework through which major risks to which the Company is exposed are identified and to ensure the means are in place for the Company to monitor and manage these risks.

Further information is set out in note 4 to the financial statements. Further, the Board considers and approves annually an Own Risk and Solvency Assessment, one purpose of which is to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the Company.

During the year, Travelers Insurance DAC the Company's subsidiary established in Ireland during 2018, obtained authorisation as a non-life insurance undertaking from the Central Bank of Ireland ("CBI") and started to trade on 1 April 2019. This ensured that the Company could continue to serve its UK and EEA insureds with exposures in the EEA following Brexit.

To support the establishment of this subsidiary the Company received a capital injection of £34.2m from its parent company. The Directors did not recommend payment of a dividend during the 2019 or 2018 financial year. It is expected that this will be the case for the immediate future as the Company builds financial resources to support its long-term strategy.

Interests of the Company employees

The Company does not have any direct employees and relies on the group service company, Travelers Management Limited, for the provision of staff. Travelers recognises that the Company's success is dependent on having engaged and committed employees. A number of actions have been taken in recent years to enhance employee engagement, including a greater focus on enabling flexible working arrangements and initiatives to encourage a more inclusive and diverse employee base. We were pleased to see this recognised with an award in the "Inclusion and Diversity – Internal Programme" category at the 2020 National Insurance awards. The Company undertakes a periodic employee engagement survey which allows employee engagement to be measured and action plans implemented to address any issues that are identified.

Interests of the Company's Customers, Suppliers and others

The Company's customers are its policyholders. As the Company develops new products and services it engages with its customers and their brokers to inform the design of those products and services. On a regular basis the Company solicits feedback from brokers on its products and services. This feedback is used to prioritise enhancements to customer interactions.

The Company does not have a dependency on any particular supplier outside of its group. Where it outsources activities the Company seeks to build long term relationships with outsourced service providers.

Operating as an insurance company requires the necessary regulatory permissions. An important stakeholder relationship is that between the Company and its regulators, the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"). The Directors and the Company's senior management are committed to working with regulators in an open and transparent way.

Impact of the Company's operations on the community and the environment

As an insurance company, we take seriously our role in supporting policyholders and claimants at difficult times following events that present physical, financial, mental and other hardships. The Directors are committed to the role that the Company plays in the community, and the economy more broadly, and actively promote a claims philosophy and standards of conduct that reflect customers' needs. Claims workflow, operational and conduct metrics are reported to the Board on a quarterly basis.

Given the scale and nature of our operations the Company does not have a significant direct impact on the environment. However, the Directors acknowledge that everyone has a role to play in protecting the environment. This topic has been given more time on the Board's agendas and will do so going forward. The Company has a "Green group" that promotes environmentally friendly activities to the Company and its staff.

Maintaining a reputation for high standards of business conduct

The PRA's Senior Managers and Certification Regime ("SM&CR") places upon the Board and Senior Managers personal accountability and responsibility for decisions made and also applies conduct rules to promote the success of the Company whilst ensuring customers are treated fairly. The importance of these rules has been reinforced by internal training provided to the Directors and senior management, as well as to all staff. The Directors, senior management and all staff are also required to undergo annual training on the Travelers Code of Business Conduct and Ethics, and to certify compliance with this requirement. The Directors consider the Company's compliance with the requirements of the Code of Business Conduct and Ethics as well as the conduct rules under the SM&CR supports the maintenance of a reputation for high standards of business conduct.

Need to act fairly between shareholders

The Company has had one shareholder throughout the period, The Travelers Companies, Inc. The risk of acting unfairly between shareholders does not, therefore, arise.

On behalf of the Board

Matthew Wilson

Chief Executive Officer

Travelers Insurance Company Limited

16 April 2020

Directors' Report

The Directors present their annual report together with the financial statements for the 12 months ended 31st December 2019.

Principal activity

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

Business Review

An analysis of the performance of the Company is contained within the Strategic Report and the results for the financial year are set out on pages 8 and 9.

Directors and directors' interests

All the directors set out on page 2 served throughout the year and up to the approval of these accounts with the exception of Maria Olivo, who was appointed on 7 March 2019 and Sean Genden and Graham McKean who resigned on 9 July 2019.

Disclosure of information to the auditor

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

Audit Committee

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

Going Concern

In determining the basis of preparation the Board has considered the impact of the COVID-19 global pandemic, which has resulted in unprecedented risks and significant levels of volatility. Whilst there are many unknowns at the time of writing, the Board considers the main risks resulting from COVID-19 for the Company are in respect of the impact on the valuation and liquidity of investments and the potential for increased insurance losses. A stress scenario related to the potential impacts of this event on the Company has been prepared and reviewed by the Board.

The Company has considerable financial resources, a high quality of invested assets, strong controls and risk mitigation processes (including, but not limited to reinsurance) and is the subsidiary of a financially strong parent company.

Accordingly, taking all of the above into account, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis in preparing the annual financial statements.

Indemnity insurance

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

Supplier payment policies

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

Environment

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

Political contributions

Political contributions were £nil during 2019 (2018 £nil).

Reappointment of Auditors

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

On behalf of the Board

John Abramson

Company Secretary
One Creechurch Place, Creechurch Lane
London EC3A 5AF

16 April 2020

Profit and Loss Account: Technical Account - General Business

for the year ended 31 December 2019

| | Note | 2019 £000 | 2018 £000 |
|--|------|--------------|--------------|
| Gross premiums written | 6 | 306,778 | 269,639 |
| Outward reinsurance premiums | | (43,324) | (37,813) |
| Net premiums written | | 263,454 | 231,826 |
| Change in the gross provision for unearned premiums | 22 | (24,451) | (24,540) |
| Change in the provision for unearned premiums, reinsurers' share | 22 | 1,575 | 2,560 |
| Earned premiums, net of reinsurance | | 240,578 | 209,846 |
| Allocated investment return transferred from the non-technical account | | 12,120 | 16,504 |
| Claims paid: | | | |
| Gross amount | | (144,542) | (150,998) |
| Reinsurers' share | | (6,324) | 19,530 |
| Net claims paid | | (150,866) | (131,468) |
| Change in the provision for claims: | | | |
| Gross amount | 22 | (25,328) | (30,994) |
| Reinsurers' share | 22 | 23,644 | 30,657 |
| Change in the net provision for claims | | (1,684) | (337) |
| Claims incurred, net of reinsurance | | (152,550) | (131,805) |
| Net operating expenses | 9 | (96,940) | (91,460) |
| Balance on the technical account | | 3,208 | 3,085 |

The notes on pages 14 to 41 form part of these financial statements.

Profit and Loss Account: Non-Technical Account

for the year ended 31 December 2019

| | Note | 2019 £000 | 2018 £000 |
|---|-------|--------------|--------------|
| Balance on the general business technical account | | 3,208 | 3,085 |
| Investment income | 8 | 27,542 | 28,935 |
| Investment expenses and charges | 10 | (15,422) | (12,431) |
| Net investment return | | 12,120 | 16,504 |
| Allocated investment return transferred to the general business technical account | | (12,120) | (16,504) |
| Other income/(expense) | 11 | 1,911 | 1,593 |
| Profit on ordinary activities before tax | 5, 12 | 5,119 | 4,678 |
| Tax charge on profit on ordinary activities | 14 | (1,113) | (619) |
| Profit for the financial year | | 4,006 | 4,059 |

The notes on pages 14 to 41 form part of these financial statements.

Statement of Comprehensive Income/(Loss)

for the year ended 31 December 2019

| | Note | 2019 £000 | 2018 £000 |
|---|------|--------------|--------------|
| Profit for the financial year | | 4,006 | 4,059 |
| Unrealised gains/(losses) on investments | 16 | 11,212 | (15,509) |
| Tax (charge)/credit on unrealised gains/(losses) on investments | 14 | (2,087) | 2,598 |
| Currency translation gains/(losses) on foreign currency net investments | | 1,664 | (574) |
| Tax (charge)/credit on currency translation gains/(losses) | 14 | (316) | 109 |
| Total comprehensive income/(loss) | | 14,479 | (9,317) |

The notes on pages 14 to 41 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2019

| | Note | Share capital £000 | Share premium £000 | Profit and loss account £000 | Revaluation reserve £000 | Total equity £000 |
|--|------|-----------------------|-----------------------|---------------------------------|-----------------------------|----------------------|
| At 1 January 2018 | | 203,822 | 699 | 259,564 | (18,608) | 445,477 |
| Profit for the financial year | | - | - | 4,059 | - | 4,059 |
| <i>Other gains/(losses) recognised in Other Comprehensive Income/(Loss)</i> | | | | | | |
| Unrealised losses on investments, net of tax | | - | - | - | (12,911) | (12,911) |
| Currency translation differences on foreign currency net investments, net of tax | | - | - | (465) | - | (465) |
| Increase in share capital | 21 | 29,000 | - | - | - | 29,000 |
| Balance at 31 December 2018 | | 232,822 | 699 | 263,158 | (31,519) | 465,160 |
| Profit for the financial year | | - | - | 4,006 | - | 4,006 |
| <i>Other gains recognised in Other Comprehensive Income/(Loss)</i> | | | | | | |
| Unrealised gains on investments, net of tax | | - | - | - | 9,125 | 9,125 |
| Currency translation differences on foreign currency net investments, net of tax | | - | - | 1,348 | - | 1,348 |
| Increase in share capital | 21 | 34,233 | - | - | - | 34,233 |
| Balance at 31 December 2019 | | 267,055 | 699 | 268,512 | (22,394) | 513,872 |

The profit and loss account includes £11,094,000 (2018 £8,697,000) of net realised losses, net of tax, which have been transferred from the revaluation reserve, of this £10,899,242 losses relate to amounts brought forward from 31 December 2018.

The notes on pages 14 to 41 form part of these financial statements.

Balance Sheet

as at 31 December 2019

| | Note | 2019 £000 | 2018 £000 |
|--|------|--------------|--------------|
| ASSETS | | | |
| Investments | | | |
| Investments in group undertakings | 15 | 58,819 | 5,446 |
| Other financial investments | 16 | 1,073,174 | 1,095,642 |
| | | 1,131,993 | 1,101,088 |
| Reinsurers' share of technical provisions | | | |
| Provision for unearned premiums | 22 | 16,502 | 15,013 |
| Claims outstanding | 22 | 101,863 | 80,465 |
| | | 118,365 | 95,478 |
| Debtors | | | |
| Debtors arising out of insurance operations | 17 | 75,359 | 54,168 |
| Debtors arising out of reinsurance operations | 18 | 4,609 | 1,490 |
| Other debtors | 19 | 4,760 | 1,551 |
| | | 84,728 | 57,209 |
| Other assets | | | |
| Deferred tax asset | 20 | 21,252 | 23,732 |
| Cash at bank and in hand | | 31,363 | 19,694 |
| | | 52,615 | 43,426 |
| Prepayments and accrued income | | | |
| Accrued interest | | 10,670 | 12,059 |
| Deferred acquisition costs | 22 | 19,216 | 15,711 |
| | | 29,886 | 27,770 |
| TOTAL ASSETS | | 1,417,587 | 1,324,971 |

| | Note | 2019 £000 | 2018 £000 |
|--|------|--------------|--------------|
| LIABILITIES | | | |
| Capital and reserves | | | |
| Called up share capital | 21 | 267,055 | 232,822 |
| Share premium account | | 699 | 699 |
| Profit and loss account | | 268,512 | 263,158 |
| Revaluation reserve | | (22,394) | (31,519) |
| Shareholders' funds attributable to equity interests | | 513,872 | 465,160 |
| Technical provisions | | | |
| Provision for unearned premiums | 22 | 171,298 | 147,947 |
| Claims outstanding | 22 | 700,945 | 683,679 |
| | | 872,243 | 831,626 |
| Creditors | | | |
| Creditors arising out of insurance operations | 24 | 2,810 | 3,869 |
| Creditors arising out of reinsurance operations | | 12,008 | 10,696 |
| Other creditors including taxation and social security | 25 | 11,486 | 9,194 |
| | | 26,304 | 23,759 |
| Accruals and deferred income | 26 | 5,168 | 4,426 |
| TOTAL LIABILITIES | | 1,417,587 | 1,324,971 |

These financial statements were approved by the Board of Directors on 16 April 2020 and were signed on its behalf by:

Mike Gent
Chief Financial Officer
16 April 2020

Travelers Insurance Company Limited
Registered in England No 1034343

Notes to the Financial Statements

1 Basis of preparation

Travelers Insurance Company Limited (“the Company”) is a limited liability company incorporated in England. Its registered office is at One Creechurch Place, Creechurch Lane, London EC3A 5AF. The financial statements of the Company have been prepared in accordance with the provisions of section 396 of the Companies Act 2006, including applying the requirements set out in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies. The Company’s financial statements have been prepared in compliance with Financial Reporting Standard 102 - “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (“FRS 102”) and Financial Reporting Standard 103 - “Insurance contracts” (“FRS 103”).

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

The financial statements of the Company were approved for issue by the Board of Directors on 16 April 2020. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements have been presented in Sterling, rounded to the nearest thousand pounds.

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

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

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

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

In determining the basis of preparation the Board has considered the impact of the COVID-19 global pandemic, which has resulted in unprecedented risks and significant levels of volatility. Whilst there are many unknowns at the time of writing, the Board considers the main risks resulting from COVID-19 for the Company are in respect of the impact on the valuation and liquidity of investments and the potential for increased insurance losses. A stress scenario related to the potential impacts of this event on the Company has been prepared and reviewed by the Board.

The Company has considerable financial resources, a high quality of invested assets, strong controls and risk mitigation processes (including, but not limited to reinsurance) and is the subsidiary of a financially strong parent company.

Accordingly, taking all of the above into account, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis in preparing the annual financial statements.

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

Notes to the Financial Statements *continued*

2 Significant accounting policies

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

Basis of accounting for underwriting activities

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

Gross written premiums

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

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

Unearned premiums

Written premiums are recognised as earned according to the risk profile of the underlying policy. Unearned premiums represent the proportion of premiums written that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate. The reinsurers’ share of unearned premiums is calculated with reference to the risk profile of the underlying reinsurance 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 which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

Classification of insurance contracts

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

Claims incurred

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

Claims outstanding

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

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

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

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Claims outstanding *continued*

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

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

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

Large claims are identified and reserved for separately.

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

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

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

Reinsurance ceded

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

Unexpired risks

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

Investments in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment.

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Financial assets and liabilities

In applying FRS 102, the Company has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Classification

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

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

Interest earned whilst holding available-for-sale financial assets is reported as interest income. Fair value changes, including foreign exchange gains or losses, are recognised in the statement of comprehensive income and accumulated in the revaluation reserve.

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

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

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

Recognition

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

Identification and measurement of impairment

The Company conducts a periodic review to identify invested assets having other than temporary impairments. Some of the factors considered in identifying other than temporary impairments include:

- whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value;
- the likelihood of the recoveries in full of the principal and interest (i.e., whether there is a credit loss);
- the financial condition, near-term and long-term prospects for the issuer including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

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

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

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

Notes to the Financial Statements *continued*

2 Significant accounting policies *continued*

Financial assets and liabilities *continued*

Offsetting

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

Investment return

Interest income is recognised on an accruals basis in the profit and loss account. Realised gains or losses represent the difference between net sales proceeds and purchase price.

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

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

Functional currencies

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

Foreign currency translation

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

For the now closed branches that had a functional currency different to the Sterling presentational currency, the results and financial position are translated into Sterling as follows: Balance sheet items are translated at the closing rate as at the balance sheet date. Profit or loss account items are translated at average monthly exchange rates. All resulting exchange differences are recognised in the Statement of Comprehensive Income.

Deferred tax

Deferred tax is recognised in respect of all timing differences at the reporting date. Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or that future taxable profits will be available against which the temporary differences can be utilised.

Notes to the Financial Statements *continued*

3 Use of critical judgements, assumptions and estimates

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

The most critical estimate included within the Company's balance sheet is that in respect of losses incurred but not reported. The total gross estimate within the Company's balance sheet as at 31 December 2019 was £417.8m (2018 £386.0m). Estimates for losses incurred but not reported are continually being re-evaluated based on the Company's claims experience, developments in the broader industry and expectations of changes in future years. There is though an inherent uncertainty in estimating claims provisions at the end of the reporting period for the eventual outcome of outstanding notified claims and in estimating the number and value of claims still to be notified. In particular the estimate of provisions for the ultimate cost of asbestos exposures is subject to significant uncertainties due to the slow emergence and longer settlement period for these claims. There is thus a risk that material adverse changes to claims estimates in future years may have a critical impact on the Company's reported performance and financial position.

Following the Lord Chancellor's announcement of the new discount rate of minus 0.25% to be used in valuing lump sum bodily injury claims, the Company has revalued its exposure to such claims on the new basis. This has resulted in a decrease in gross and net reserves of £15.0m.

Significant assumptions are required in valuing the Company's 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.

The recoverability of the deferred tax asset depends on the availability of future profits. Projected profits of the Company over the five year business planning cycle has been used as the basis for determining the recoverability of this asset, together with the indefinite tax loss carry forward available in the UK.

The deferred tax asset in respect of taxable losses carried forward was £17.9m at 31 December 2019 (2018 £18.9m).

4 Risk and capital management

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

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

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

Notes to the Financial Statements *continued***4 Risk and capital management** *continued***Insurance risk***Management of insurance risk*

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

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

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

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

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

Notes to the Financial Statements *continued***4 Risk and capital management** *continued**Concentration of insurance risk*

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

| | United Kingdom | Ireland | Other | Total |
|-----------------------------------|----------------|---------------|---------------|----------------|
| 2019 | £000 | £000 | £000 | £000 |
| Credit and Suretyship | 2,140 | - | 2,246 | 4,386 |
| Fire and other damage to property | 91,935 | 10,160 | 9,895 | 111,990 |
| Marine and aviation | 7,864 | 14 | 8,538 | 16,416 |
| Motor | 11,582 | 6,470 | 133 | 18,185 |
| Third party liability | 135,198 | 12,645 | 7,080 | 154,923 |
| Miscellaneous | 554 | - | 324 | 878 |
| Total | 249,273 | 29,289 | 28,216 | 306,778 |

| | United Kingdom | Ireland | Other | Total |
|-----------------------------------|----------------|---------------|--------------|----------------|
| 2018 | £000 | £000 | £000 | £000 |
| Credit and Suretyship | 1,770 | - | - | 1,770 |
| Fire and other damage to property | 86,093 | 13,980 | 2,595 | 102,668 |
| Marine | 2,171 | 10 | 5,196 | 7,377 |
| Motor | 11,829 | 7,798 | - | 19,627 |
| Third party liability | 121,478 | 15,411 | 920 | 137,809 |
| Miscellaneous | 66 | - | 322 | 388 |
| Total | 223,407 | 37,199 | 9,033 | 269,639 |

Net loss ratio sensitivity

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

| | 2019 | 2018 |
|--|--------------|--------------|
| | £000 | £000 |
| Total decrease in result after tax and net assets | 1,997 | 1,736 |

Profit and loss sensitivity to expenses

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

| | 2019 | 2018 |
|--|--------------|--------------|
| | £000 | £000 |
| Total decrease in result after tax and net assets | 4,023 | 3,784 |

Notes to the Financial Statements *continued***4 Risk and capital management** *continued***Credit risk**

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

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

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

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

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

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

| 2019 | AAA | AA | A | BBB | Not rated | Total |
|--------------------------------|---------|---------|---------|--------|-----------|-----------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Other financial investments | 395,732 | 485,676 | 174,372 | 17,394 | - | 1,073,174 |
| Reinsurance claims outstanding | 3,587 | 73,755 | 23,266 | - | 1,255 | 101,863 |
| Reinsurance debtors | 155 | 2,155 | 1,481 | - | 818 | 4,609 |
| Insurance debtors | - | - | - | - | 75,359 | 75,359 |
| Other debtors | - | - | - | - | 4,760 | 4,760 |
| Cash at bank and in hand | - | - | 30,965 | 398 | - | 31,363 |
| Total by rating | 399,474 | 561,586 | 230,084 | 17,792 | 82,192 | 1,291,128 |
| Percentage by rating | 30.9% | 43.5% | 17.8% | 1.4% | 6.4% | 100.0% |

| 2018 | AAA | AA | A | BBB | Not rated | Total |
|--------------------------------|---------|---------|---------|--------|-----------|-----------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Other financial investments | 398,126 | 503,146 | 170,001 | 24,369 | - | 1,095,642 |
| Reinsurance claims outstanding | 19,770 | 27,846 | 30,876 | 898 | 1,075 | 80,465 |
| Reinsurance debtors | 165 | 841 | 443 | - | 41 | 1,490 |
| Insurance debtors | - | - | - | - | 54,168 | 54,168 |
| Other debtors | - | - | - | - | 1,551 | 1,551 |
| Cash at bank and in hand | - | - | 14,337 | 5,357 | - | 19,694 |
| Total by rating | 418,061 | 531,833 | 215,657 | 30,624 | 56,835 | 1,253,010 |
| Percentage by rating | 33.4% | 42.4% | 17.2% | 2.5% | 4.5% | 100.0% |

Notes to the Financial Statements *continued***4 Risk and capital management** *continued***Credit risk** *continued*

The largest counterparty exposure within the AAA rating was the European Investment Bank as at 31 December 2019 and 2018. Within the AA rating, the largest counterparty exposure was the UK government as at 31 December 2019 and 2018. With the exception of AAA and AA government debt securities the largest credit exposure does not exceed 5% of the Company's total financial assets. The Company has no holdings in government bonds of Greece, Italy, Spain or Portugal, nor in any corporate bonds for companies based in those countries.

The largest reinsurance counterparty exposure within the AAA rating at 31 December 2019 and 2018 was General Reinsurance AG. Within the AA rating, the largest reinsurance counterparty at 31 December 2019 was Travelers Indemnity Company (2018 St Paul Fire and Marine Insurance Company).

As at 31 December 2019 and 2018 the Company held no material financial assets that were past due or impaired beyond their reported fair values. For the current and prior periods the Company did not experience any defaults on investments.

As at 31 December 2019 the Company had pledged as collateral to support the capital requirements of fellow subsidiary operations £132.7m (2018 £90m) of government securities.

As at 31 December 2019 the Company had pledged as collateral to support its obligations under the 80% quota share reinsurance with its subsidiary Travelers Insurance Designated Activity Company £110.5m of fixed income securities and cash (£2018: £nil). See note 28 for further details.

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

| 2019 | Within terms | 0 - 1 month | 2 - 3 months | Over 3 Months | Impairments | Total |
|--------------------------------|--------------|-------------|--------------|---------------|-------------|-----------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Other financial investments | 1,073,174 | - | - | - | - | 1,073,174 |
| Reinsurance claims outstanding | 101,863 | - | - | - | - | 101,863 |
| Reinsurance debtors | 1,938 | 48 | 301 | 2,322 | - | 4,609 |
| Insurance debtors | 67,239 | 2,604 | 2,884 | 2,719 | (87) | 75,359 |
| Other debtors | 4,760 | - | - | - | - | 4,760 |
| Cash at bank and in hand | 31,363 | - | - | - | - | 31,363 |
| Total | 1,280,337 | 2,652 | 3,185 | 5,041 | (87) | 1,291,128 |

| 2018 | Within terms | 0 - 1 month | 2 - 3 months | Over 3 Months | Impairments | Total |
|--------------------------------|--------------|-------------|--------------|---------------|-------------|-----------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Other financial investments | 1,095,642 | - | - | - | - | 1,095,642 |
| Reinsurance claims outstanding | 80,465 | - | - | - | - | 80,465 |
| Reinsurance debtors | 1,001 | 16 | 57 | 1,316 | (900) | 1,490 |
| Insurance debtors | 48,503 | 3,330 | 1,416 | 1,013 | (94) | 54,168 |
| Other debtors | 1,551 | - | - | - | - | 1,551 |
| Cash at bank and in hand | 19,694 | - | - | - | - | 19,694 |
| Total | 1,246,856 | 3,346 | 1,473 | 2,329 | (994) | 1,253,010 |

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

Notes to the Financial Statements *continued***4 Risk and capital management** *continued***Market risk**

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

Interest rate risk

The Company's investment portfolio is comprised exclusively of high quality fixed income government and corporate bonds. The fair value of the investment portfolio is inversely correlated to movement in market interest rates. If market interest rates rise, the fair value of the Company's fixed income investments will fall. The investments typically have relatively short durations and the portfolio is managed to minimise interest rate risk. If market interest rates had risen by 100 basis points as at the balance sheet date the shareholder's equity would have fallen by £21.2m (2018 £23.7m) after tax.

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

Currency risk

The Company operates principally in the UK and Ireland. Prior to the Part VII transfer under the Financial Services and Markets Act 2000 of insurance assets and liabilities to its subsidiary, Travelers Insurance Designated Activity Company ("TIDAC"), the Company also had currency exposures to its run-off operations in Netherlands, France and Germany. Since the Part VII transfer the Company has a currency exposure to the 80% reinsurance quota share agreement with its subsidiary TIDAC. The Company also has currency exposures to intercompany transactions with its parent company in the United States. Accordingly its net assets are subject to foreign exchange movements between Sterling and the Euro and US dollar. The Company manages these exposures by monitoring them regularly and ensuring its Euro and US dollar assets are broadly matched by Euro and US dollar liabilities respectively, with any surplus net assets held in Sterling.

| | Pound sterling | Euro | US dollar | Other | Total |
|-----------------------------|----------------|--------|-----------|-------|---------|
| | £000 | £000 | £000 | £000 | £000 |
| Net assets 31 December 2019 | 465,265 | 51,873 | (3,266) | - | 513,872 |
| Net assets 31 December 2018 | 475,290 | 4,487 | (14,424) | (193) | 465,160 |

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

| | Increase Sterling/Euro | Decrease Sterling/Euro | Increase Sterling/USD | Decrease Sterling/USD |
|--|---------------------------|---------------------------|--------------------------|--------------------------|
| | £000 | £000 | £000 | £000 |
| Increase/(decrease) in net assets 31 December 2019 | 631 | (772) | 297 | (363) |
| Increase/(decrease) in net assets 31 December 2018 | (417) | 510 | 1,334 | (1,631) |

Liquidity risk

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

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

Notes to the Financial Statements *continued***4 Risk and capital management** *continued***Liquidity risk** *continued*

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

| 2019 | Total | 0 - 1 year | 2 - 5 years | More than 5 years |
|----------------------|---------|------------|-------------|----------------------|
| | £000 | £000 | £000 | £000 |
| Technical provisions | 872,243 | 415,860 | 353,746 | 102,638 |
| Creditors | 26,304 | 26,304 | - | - |
| Total | 898,547 | 442,164 | 353,746 | 102,638 |

| 2018 | Total | 0 - 1 year | 2 - 5 years | More than 5 years |
|----------------------|---------|------------|-------------|----------------------|
| | £000 | £000 | £000 | £000 |
| Technical provisions | 831,626 | 372,888 | 359,654 | 99,084 |
| Creditors | 23,759 | 23,759 | - | - |
| Total | 855,385 | 396,647 | 359,654 | 99,084 |

Capital management

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

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

The Company's capital comprises share capital, retained earnings and revaluation reserves. For internal modelling purposes the Company treats its available capital as being its shareholder's equity, less capital pledged to support the capital needs of affiliates. As at 31 December available capital on this basis comprised £383.4m (2018 £375.0m). During the year the Company received a £34.2m capital injection from its parent company, The Travelers Companies, Inc., in return for the issuance of new shares, to support its investment in its new Irish subsidiary Travelers Insurance Designated Activity Company.

The Company is subject to capital requirements imposed by both its regulator and rating agencies. The insurance company capital regime in the UK is on a Solvency II basis. Under this regime the Company's capital requirement is determined using the standard formula. As management sets the target economic capital for the Company, the regulatory and rating agency capital requirements are treated as minimum requirements. In setting its target economic capital and determining capital to allocate to different products the Company employs its internal capital model. At 31 December 2019 the Company's unaudited regulatory solvency capital requirement was £286.6m (2018 £278.8m).

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

The Company's financial strength rating with A.M. Best is A++ (superior).

Notes to the Financial Statements *continued***5 Continuing and run-off operations**

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

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

The run-off business in its former branch operations in Ireland, Netherlands, France and Germany was transferred to Travelers Insurance Designated Activity Company via a business transfer scheme under Part VII of the Financial Services and Markets Act 2000 as of 1 October 2019. 80% has been reinsured back to the Company under a quota share reinsurance agreement, effective as of the same date.

On 28 February 2019, all of the business of Travelers Casualty and Surety Company of Europe Limited, an affiliated group company, was transferred to the Company via a business transfer scheme under Part VII of the Financial Services and Markets Act 2000. Included in that transfer was the Specialty run-off business that went into run-off in 2002. The Specialty business is 100% reinsured with the fellow group company, The Travelers Indemnity Company.

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

| | 2019 | | 2018 | |
|---|-------------------------------|----------------------------|-------------------------------|----------------------------|
| | Continuing operations £000 | Run-off operations £000 | Continuing operations £000 | Run-off operations £000 |
| Net premiums written | 263,455 | (1) | 231,826 | - |
| Net premiums earned | 240,579 | (1) | 209,846 | - |
| Allocated investment return | 12,193 | (73) | 16,417 | 87 |
| | 252,772 | (74) | 226,263 | 87 |
| Claims paid - gross amount | (156,690) | 12,148 | (150,426) | (572) |
| Claims paid - reinsurers' amount | 16,148 | (22,472) | 19,529 | 1 |
| Change in provisions for claims - gross amount | (11,505) | (13,823) | (26,065) | (4,929) |
| Change in provisions for claims - reinsurers' amount | 1,662 | 21,982 | 27,245 | 3,412 |
| Claims incurred, net of reinsurance | (150,385) | (2,165) | (129,717) | (2,088) |
| Net operating expenses | (96,581) | (359) | (91,056) | (404) |
| Balance on the technical account | 5,806 | (2,598) | 5,490 | (2,405) |
| Investment income | 27,615 | (73) | 28,848 | 87 |
| Investment expenses and charges | (15,422) | - | (12,431) | - |
| | 12,193 | (73) | 16,417 | 87 |
| Allocated investment return transferred to the general business technical account | (12,193) | 73 | (16,417) | (87) |
| Other income/(charges) | 1,936 | (25) | 1,673 | (80) |
| Profit/(loss) on ordinary activities before tax | 7,742 | (2,623) | 7,163 | (2,485) |

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

| | 2019 | | |
|--------------------------------|--------------------------------|-------------------------------|---------------------------|
| | Gross premiums written £000 | Gross premiums earned £000 | Profit before tax £000 |
| By geographical segment | | | |
| United Kingdom | 277,008 | 249,456 | 14,199 |
| Republic of Ireland | 29,770 | 32,871 | (5,853) |
| Other Europe | - | - | (3,227) |
| Total | 306,778 | 282,327 | 5,119 |

| | 2018 | | |
|--------------------------------|--------------------------------|-------------------------------|---------------------------|
| | Gross premiums written £000 | Gross premiums earned £000 | Profit before tax £000 |
| By geographical segment | | | |
| United Kingdom | 232,785 | 209,064 | 10,594 |
| Republic of Ireland | 36,854 | 36,035 | (4,256) |
| Other Europe | - | - | (1,660) |
| Total | 269,639 | 245,099 | 4,678 |

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

(b) Analysis of gross premiums written

| | 2019 | 2018 |
|--|---------|---------|
| | £000 | £000 |
| Resulting from contracts concluded by the Company: | | |
| Direct | 238,619 | 265,300 |
| Inwards reinsurance | 68,159 | 4,339 |
| Total | 306,778 | 269,639 |

The increase of inwards reinsurance is due to the whole account quota share agreement between the Company and Travelers Insurance Designated Activity Company.

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

| | 2019 | | | | |
|-----------------------------------|------------------------|-----------------------|-----------------------|--------------------------|---------------------|
| | Gross premiums written | Gross premiums earned | Gross claims incurred | Gross operating expenses | Reinsurance balance |
| | £000 | £000 | £000 | £000 | £000 |
| Motor | 18,185 | 18,739 | (7,993) | (7,075) | (2,534) |
| Fire and other damage to property | 111,990 | 104,675 | (77,097) | (42,017) | (11,678) |
| Third party liability | 154,923 | 146,518 | (83,545) | (45,044) | 102 |
| Credit and Suretyship | 4,386 | 3,682 | 4,177 | (1,428) | (6,475) |
| Marine and aviation | 16,416 | 7,673 | (2,736) | (4,788) | (875) |
| Miscellaneous | 878 | 1,040 | (2,676) | (715) | 1,158 |
| | 306,778 | 282,327 | (169,870) | (101,067) | (20,302) |

| | 2018 | | | | |
|-----------------------------------|------------------------|-----------------------|-----------------------|--------------------------|---------------------|
| | Gross premiums written | Gross premiums earned | Gross claims incurred | Gross operating expenses | Reinsurance balance |
| | £000 | £000 | £000 | £000 | £000 |
| Motor | 19,627 | 18,722 | (8,854) | (6,849) | (1,311) |
| Fire and other damage to property | 102,668 | 93,295 | (86,741) | (40,122) | 13,538 |
| Third party liability | 137,809 | 121,471 | (69,803) | (41,676) | 880 |
| Credit and Suretyship | 1,770 | 2,070 | (5,398) | (1,073) | 4,526 |
| Marine | 7,377 | 9,058 | (11,090) | (4,811) | 750 |
| Miscellaneous | 388 | 483 | (106) | (275) | (103) |
| | 269,639 | 245,099 | (181,992) | (94,806) | 18,280 |

Commission payable in respect of direct insurance amounted to £42,265,000 (2018 £36,497,000).

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

Notes to the Financial Statements *continued***7 Prior years' claims provisions**

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

| | 2019 | 2018 |
|-----------------------------------|--------|-------|
| | £000 | £000 |
| Motor | 6,155 | 885 |
| Fire and other damage to property | 4,236 | 1,932 |
| General liability | 9,907 | 1,517 |
| Marine | 1,301 | (350) |
| Miscellaneous | (805) | 75 |
| | 20,794 | 4,059 |

The movement in prior year claims provision is after reflecting the impact of the announcement from the Lord Chancellor in July 2019 of the change in the discount rate used for bodily injury claims ("the Ogden rate"), from minus 0.75% to minus 0.25%. Excluding the impact of the adjustment for the Ogden rate, movement in prior year claims would have been a release of £5.8m.

8 Investment income

| | 2019 | 2018 |
|---|--------|--------|
| | £000 | £000 |
| Income from investments | 26,571 | 28,034 |
| Gains on the realisation of investments | 971 | 901 |
| | 27,542 | 28,935 |

9 Net operating expenses

| | 2019 | 2018 |
|--|---------|---------|
| | £000 | £000 |
| Acquisition costs | 42,265 | 36,497 |
| Change in gross deferred acquisition costs | (3,624) | (91) |
| | 38,641 | 36,406 |
| Administrative expenses | 62,426 | 58,400 |
| Gross operating expenses | 101,067 | 94,806 |
| Reinsurance commissions and profit participation | (4,273) | (3,921) |
| Change in deferred reinsurance commission | 146 | 575 |
| | 96,940 | 91,460 |

10 Investment expenses and charges

| | 2019 | 2018 |
|--|--------|--------|
| | £000 | £000 |
| Investment management expenses | 755 | 793 |
| Losses on the realisation of investments | 14,667 | 11,638 |
| | 15,422 | 12,431 |

Notes to the Financial Statements *continued***11 Other income/(expense)**

| | 2019 | 2018 |
|------------------------|-------|-------|
| | £000 | £000 |
| Foreign exchange gain | 866 | 74 |
| Pool Re distribution | 273 | 880 |
| Fee income | 1,209 | 413 |
| Other (expense)/income | (437) | 226 |
| | 1,911 | 1,593 |

12 Profit on ordinary activities before tax

| | 2019 | 2018 |
|---|--------|--------|
| | £000 | £000 |
| Profit on ordinary activities before tax is stated after crediting | | |
| Income from fixed income investments | 26,571 | 28,034 |
| after charging | | |
| Auditor's remuneration: | | |
| Audit of these financial statements | 194 | 188 |
| Amounts receivable by the Company's auditor and its associates in respect of: | | |
| Audit-related assurance services | 140 | 107 |

13 Remuneration of directors

| | 2019 | 2018 |
|---|------|------|
| | £000 | £000 |
| Directors' fees | 107 | 116 |
| Directors' emoluments | 589 | 497 |
| Company contributions to money purchase schemes | 10 | 10 |

The salary and bonus of the highest paid director for the year was £426,014 (2018 £354,629) and the pension contribution to a money purchase scheme was £5,000 (2018 £5,000). Share options were not exercised in 2019 (were not exercised in 2018).

Number of directors

| | 2019 | 2018 |
|---|------|------|
| Retirement benefits are accruing to the following number of directors: | | |
| Money purchase schemes | 2 | 2 |
| Defined benefit schemes | - | - |
| The number of directors who exercised share options was | - | - |
| The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was | - | - |

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

| | 2019 | 2018 |
|--|-------|------|
| | £000 | £000 |
| United Kingdom Corporation Tax | | |
| United Kingdom Corporation Tax at 19.0% (2018 19.0%) | 893 | 141 |
| Adjustment in respect of prior periods | 143 | 38 |
| Total current tax charge | 1,036 | 179 |
| Foreign tax | | |
| Adjustments in respect of prior periods | - | - |
| Deferred tax | | |
| Deferred tax (credit)/charge | (103) | 29 |
| Changes in tax rate | 180 | 411 |
| Tax charge on profit on ordinary activities | 1,113 | 619 |

(b) Tax included in Other Comprehensive Income/(Loss)

| | 2019 | 2018 |
|--|-------|---------|
| | £000 | £000 |
| Deferred tax: | | |
| Charge/(credit) on currency translation gains/(losses) | 316 | (109) |
| Charge/(credit) on unrealised losses on investments | 2,087 | (2,598) |
| Tax charge/(credit) on Other Comprehensive Income/(Loss) | 2,403 | (2,707) |

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

The tax charge for the year is higher than (2018 lower than) the standard rate of corporation tax in the UK:

| | 2019 | 2018 |
|--|-------|-------|
| | £000 | £000 |
| Profit on ordinary activities before tax | 5,119 | 4,678 |
| Tax using the corporation tax rate of 19.0% (2018 19.0%) | 973 | 889 |
| Effect of tax rate change | 180 | 411 |
| Prior year adjustments - current tax | 143 | 38 |
| Prior year adjustments - deferred tax | (131) | 15 |
| Prior year group relief - deferred tax | - | (567) |
| Non-taxable income | (52) | (167) |
| Total tax charge | 1,113 | 619 |

As at 31 December 2019 the Company had tax losses carried forward of £100,643,000 (2018 £109,606,000).

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

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

In the 2020 Budget, the UK government announced their intention not to proceed with the previously agreed reduction in the rate of corporation tax to 17%. This has not yet received Royal Assent.

Notes to the Financial Statements *continued***15 Investments in Group Undertakings**

Travelers Insurance Designated Activity Company (“TIDAC”) is incorporated within the Republic of Ireland and is a wholly owned subsidiary of the Company. The Company injected £5.5m of new capital in return for the issuance of new shares in December 2018. In February 2019 the Company injected a further £26.5m of new capital in return for the issuance of new shares and in September 2019 injected a further £26.9m by way of a capital contribution.

The following table gives information on TIDAC as at 31 December 2019:

| | 2019 | 2018 |
|----------------------|-------------|----------|
| | £000 | £000 |
| Cost | 58,819 | 5,446 |
| Net assets | 55,680 | 5,501 |
| Class of shares held | Ordinary | Ordinary |

The registered address of TIDAC is 3rd Floor, Block 8, Harcourt Centre, Charlotte Way, Dublin 2, Ireland.

Under the Companies Act 2006 Section 401, for accounting periods beginning on or after 1st January 2005 an exemption from preparing consolidated accounts is available, subject to certain conditions. Following an assessment of these conditions it is considered appropriate for the Company to take advantage of the exemption from preparing consolidated accounts and therefore these financial statements are for the Company only.

16 Investments**(a) Fair value**

| | Fair Value 2019 | Fair Value 2018 | Cost 2019 | Cost 2018 |
|---|---------------------------|--------------------|---------------------|--------------|
| | £000 | £000 | £000 | £000 |
| Debt and other fixed income securities | 1,073,174 | 1,095,642 | 1,097,967 | 1,131,647 |
| Included in debt and other fixed income securities: | | | | |
| UK fixed income securities | 321,446 | 339,882 | 335,282 | 356,775 |
| Overseas fixed income securities | 751,728 | 755,760 | 762,685 | 774,872 |
| | 1,073,174 | 1,095,642 | 1,097,967 | 1,131,647 |

(b) Movement in the year

| | 2019 | 2018 |
|--------------------------------|-------------|-----------|
| | £000 | £000 |
| Investments brought forward | 1,095,642 | 1,065,850 |
| Purchases | 325,859 | 298,865 |
| Fair value adjustments | 11,212 | (15,509) |
| Disposals/maturities | (352,390) | (255,791) |
| Currency translation movements | (7,149) | 2,227 |
| Investments carried forward | 1,073,174 | 1,095,642 |

Notes to the Financial Statements *continued***16 Investments** *continued***(c) Fair value measurement of investments**

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

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

The Company utilised a pricing service to estimate the fair value of its investments at both 31 December 2019 and 31 December 2018.

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

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

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|-----------|---------|-----------|
| | £000 | £000 | £000 | £000 |
| Financial assets as at 31 December 2019 | - | 1,073,174 | - | 1,073,174 |
| Financial assets as at 31 December 2018 | - | 1,095,642 | - | 1,095,642 |

Notes to the Financial Statements *continued***17 Debtors arising out of insurance operations**

| | 2019 | 2018 |
|--------------------------------|--------|--------|
| | £000 | £000 |
| Amounts owed by intermediaries | 75,255 | 54,168 |
| Amounts owed by policyholders | 104 | - |
| | 75,359 | 54,168 |

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

18 Debtors arising out of reinsurance operations

| | 2019 | 2018 |
|----------------------------|-------|-------|
| | £000 | £000 |
| Amounts owed by reinsurers | 4,609 | 1,490 |

19 Other debtors

| | 2019 | 2018 |
|------------------------------------|-------|-------|
| | £000 | £000 |
| Amounts owed by group undertakings | 3,069 | 986 |
| UK tax recoverable | 1,243 | 187 |
| Foreign tax recoverable | 52 | 299 |
| Other debtors | 396 | 79 |
| | 4,760 | 1,551 |

20 Deferred tax asset

The amounts provided for deferred taxation are set out below:

| | 2019 | | | | | |
|--|----------------------------------|----------------------|-------------------------|--|--|------------------------------------|
| | Tax losses carried forward | Expense provision | Equalisation reserve | Unrealised losses on investments | Timing differences on realised losses on investments | Total net deferred tax asset |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Deferred tax asset/(liability) brought forward | 18,905 | - | (1,171) | 6,364 | (366) | 23,732 |
| Current year P&L | (444) | - | 416 | - | - | (28) |
| Prior year P&L | 131 | - | - | - | - | 131 |
| OCI | (507) | - | - | (2,131) | 191 | (2,447) |
| Rate change | (180) | - | - | 44 | - | (136) |
| | 17,905 | - | (755) | 4,277 | (175) | 21,252 |

Notes to the Financial Statements *continued***20 Deferred tax asset** *continued*

| | 2018 | | | | | |
|--|----------------------------------|----------------------|-------------------------|--|--|------------------------------------|
| | Tax losses carried forward | Expense provision | Equalisation reserve | Unrealised losses on investments | Timing differences on realised losses on investments | Total net deferred tax asset |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Deferred tax asset/(liability) brought forward | 19,864 | 75 | (1,587) | 3,766 | (653) | 21,465 |
| Current year P&L | (922) | (75) | 416 | - | - | (581) |
| Prior year P&L | 552 | - | - | - | - | 552 |
| OCI | (178) | - | - | 2,598 | 287 | 2,707 |
| Rate change | (411) | - | - | - | - | (411) |
| | 18,905 | - | (1,171) | 6,364 | (366) | 23,732 |

The tax losses carried forward have no time limit. There were no amounts that were unprovided for in the year (2018 £nil). The net reversal of deferred tax expected to occur next year is £875,000 (2018 £1,788,000), relating to the release of tax losses carried forward of £5,000,000 (2018 £9,410,000).

21 Called up share capital

| | 2019 | 2018 |
|---|---------|---------|
| | £000 | £000 |
| Allotted, called up and fully paid | | |
| 267,055,368 (2018 232,822,115) ordinary shares of £1 each | 267,055 | 232,822 |

During the year the Company received a capital injection of £34.2m in return for the issuance of 34,233,253 new ordinary £1 shares.

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

| | 2019 | | 2018 | |
|---------------------------------------|-----------|----------|-----------|----------|
| | £000 | £000 | £000 | £000 |
| Gross | | | | |
| At the start of the year | | 147,947 | | 124,026 |
| Premiums written | 306,778 | | 269,638 | |
| Premiums earned | (282,327) | | (245,098) | |
| Changes in unearned premium provision | | 24,451 | | 24,540 |
| Currency translation differences | | (1,100) | | (619) |
| At the end of the year | | 171,298 | | 147,947 |
| Reinsurance amount | | | | |
| At the start of the year | | (15,013) | | (12,283) |
| Premiums written | (43,324) | | (37,813) | |
| Premiums earned | 41,749 | | 35,253 | |
| Changes in unearned premium provision | | (1,575) | | (2,560) |
| Currency translation differences | | 86 | | (170) |
| At the end of the year | | (16,502) | | (15,013) |

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

| | 2019 | 2018 |
|--------------------------------|-------|-------|
| | £000 | £000 |
| Amounts owed to intermediaries | 2,810 | 3,658 |
| Amounts owed to policyholders | - | 211 |
| | 2,810 | 3,869 |

25 Other creditors including taxation and social security

| | 2019 | 2018 |
|------------------------------------|--------|-------|
| | £000 | £000 |
| Insurance premium taxes | 6,644 | 9,045 |
| Amounts owed to group undertakings | 4,842 | 149 |
| | 11,486 | 9,194 |

26 Accruals and deferred income

| | 2019 | 2018 |
|---|-------|-------|
| | £000 | £000 |
| Reinsurers' share of deferred acquisition costs | 2,058 | 1,946 |
| Accrued expenses | 3,110 | 2,480 |
| | 5,168 | 4,426 |

27 Related party transactions

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

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

28 Commitments and Contingent Liabilities

In the normal course of business, letters of credit to the value of £56,570 (2018 £58,851) have been issued to fiscal authorities against insurance tax liabilities. These are secured against bank deposits.

On establishment of Travelers Insurance Designated Activity Company ("TIDAC"), a collateral arrangement was put in place between the Company and TIDAC to support the reinsurance agreement. The arrangement requires that the premium paid to the Company by TIDAC be held within an escrow account for a period of at least 2 years before it can be released. Claims paid relating to this premium can be funded from the collateral account. The funds held within the collateral account at the year end were £110.5m. These funds are reported within other financial investments

The Company has also guaranteed the lease commitments of an affiliated company relating to one of its main operating premises in the United Kingdom. The commitment is £738,206 per annum, expiring in 2027.

Acting as a third party depositor under a trust deed executed in 2013, the Company has deposited £130.5m (2018 £90.0m) in fixed income securities with Lloyd's as security for the underwriting activities of its affiliate companies, Aprilgrange Limited and F&G UK Underwriters Limited. The fees attaching to this security earned by the Company were £1.2m (2018 £0.4m).

Travelers has a pension scheme in the UK providing benefits based on final pensionable pay. This scheme was closed with effect from 1 April 2003. Travelers Management Limited currently bears responsibility for meeting any funding requirements of this scheme. In the event that Travelers Management Limited was not able to fulfil its obligations this responsibility would fall to the Company. The updated valuation for FRS 102 as at 31 December 2019 identified a deficit of £3.1m (2018 deficit of £2.1m).

Notes to the Financial Statements *continued***29 Immediate and ultimate parent company**

The immediate and ultimate parent undertaking of the Company is The Travelers Companies, Inc., a company registered in the United States. Copies of The Travelers Companies, Inc. accounts can be obtained from the Company's registered office, One Creechurch Lane, London EC3A 5AF, or the Company's website: www.travelers.co.uk.

30 Subsequent events

Following year end, a global pandemic was declared due to the spread of a coronavirus ("COVID-19"). COVID-19 has already caused significant investment market uncertainty and volatility, supply chain interruptions and is expected to significantly disrupt the global economy. We currently do not expect that insured losses related to COVID-19 will have a material impact on the Company's financial condition and due to the nature of our investment portfolio, we believe we are well placed to withstand investment market volatility. However, the length and depth of the disruption to the economy is a concern and we will be monitoring developments closely. Economic downturns and financial disruptions in the past have resulted in, among other things, decreased business volumes, reduced valuations on the investment portfolio and heightened credit risk which can impact both the Company's investment portfolio and its insurance operations. In addition, declines in interest rates may lead to declines in fixed income yields, which would adversely impact the Company's net investment income from future investment activity. Also, the Company is subject to the risk of court cases and legislative or regulatory action interpreting or mandating coverage for business interruption claims which insurance policies do not currently cover. Our focus is the well-being of our staff and our ability to continue to provide service to our insureds. The Company is taking appropriate actions to safeguard employees and ensure it can continue to serve its insureds.

31 Affiliate company guarantee

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

Notes to the Financial Statements *continued***32 Part VII transfers****Travelers Insurance Designated Activity Company**

On 1 October 2019 the business written through the Company's branch in Ireland, its run-off branches in Netherlands, France and Germany and the associated Euro gross and ceded technical provisions was transferred to Travelers Insurance Designated Activity Company, a subsidiary of the Company, under Part VII of the Financial Services and Markets Act 2000 ("Part VII transfer"). The business transferred was then reinsured back to the Company by way of an 80% quota share reinsurance agreement. Both transactions had a net nil impact on the shareholder's funds due to the transfer of predominantly Euro cash and bonds. The assets and liabilities transferred are detailed below:

| | Transferred out | Reinsured back to the Company | Final balance |
|---|-----------------|----------------------------------|---------------|
| | £000 | £000 | £000 |
| Investments | (86,735) | 88,771 | 2,036 |
| Reinsurers' share of technical provisions | (20,622) | - | (20,622) |
| Debtors arising out of insurance operations | (440) | - | (440) |
| Debtors arising out of reinsurance operations | (1,014) | - | (1,014) |
| Deferred acquisition costs | (690) | 541 | (149) |
| Cash at bank and in hand | (28,869) | - | (28,869) |
| Total assets transferred | (138,370) | 89,312 | (49,058) |
| Currency translation differences on Part VII transfer | 2,048 | (4,014) | (1,966) |
| Technical provisions | (137,279) | 93,326 | (43,953) |
| Creditors arising out of reinsurance operations | (3,025) | - | (3,025) |
| Other creditors | (100) | - | (100) |
| Accruals and deferred income | (14) | - | (14) |
| Total liabilities transferred | (138,370) | 89,312 | (49,058) |
| Total assets recognised on transfer | - | - | - |

Notes to the Financial Statements *continued***32 Part VII transfers** *continued***Travelers Casualty and Surety Company of Europe Limited**

On 28 February 2019, all of the business of Travelers Casualty and Surety Company of Europe Limited, an affiliated group company, was transferred to the Company via a business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The assets and liabilities transferred are detailed below:

| | £000 |
|---|--------|
| Reinsurers' share of technical provisions | 45,682 |
| Debtors arising out of insurance operations | 340 |
| Debtors arising out of reinsurance operations | 3 |
| Deferred acquisition costs | 120 |
| Total assets acquired | 46,145 |
| Technical provisions | 45,682 |
| Creditors arising out of insurance operations | 28 |
| Creditors arising out of reinsurance operations | 340 |
| Accruals and deferred income | 120 |
| Total liabilities acquired | 46,170 |
| Net liabilities recognised on acquisition | (25) |

The accounting treatment adopted for these transactions was as follows:

Travelers Insurance Designated Activity Company

- The claims reserves transferred out under the Part VII were reflected within the income statement as a reduction in claims reserves and an offsetting claims payment with no net Profit and Loss account impact
- The unearned premium reserve transferred out was treated as a negative written premium with a corresponding reduction in unearned premium reserves with no net Profit and Loss account impact.

Travelers Casualty and Surety Company of Europe Limited

- The claims reserves transferred in under the Part VII were reflected within the income statement as an increase in claims reserves and an offsetting negative claims payment with no net Profit and Loss account impact
- The unearned premium reserve transferred in was treated as an increase in written premium with a corresponding increase in unearned premium reserves with no net Profit and Loss account impact.

Independent auditor's report to the members of Travelers Insurance Company Limited

1. Our opinion is unmodified

We have audited the financial statements of Travelers Insurance Company Limited ("the Company") for the year ended 31 December 2019 which comprise the profit and loss account: technical account – general business, profit and loss account: non-technical account, statement of comprehensive loss/income, statement of changes in equity, balance sheet, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2019 and of its profit/loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and FRS 103 Insurance Contracts;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the Company before 1990. The period of total uninterrupted engagement is for more than the 29 financial years ended 31 December 2019.

We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No nonaudit services prohibited by that standard were provided.

| Overview | | |
|---------------------------------|--|---------|
| Materiality: | £2.1m (2018: £2.1m) | |
| financial statements as a whole | 0.68% (2018: 0.80%) of gross written premium | |
| Key audit matters | | vs 2018 |
| Recurring risks | Valuation of claims outstanding – IBNR | ◀▶ |
| New risks | Going concern - The impact of uncertainties due to the Covid-19 pandemic | ▲ |

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2018), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Travelers Insurance Company Limited *continued*

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

| | The risk | Our response |
|---|--|---|
| Valuation of claims outstanding – IBNR (£417.8 million gross, £356.6 million net; 2018: £386.0 million gross, £350.2 million net) Refer to pages 8 and 9 Audit Committee Report dated 23 March 2020, page 15 of the financial statements for the accounting policy) and pages 30 - 32 of the financial statements for the financial disclosures. | Subjective valuation Claims outstanding represent the largest risk for the Company. Valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as expected loss ratios, estimates of the frequency and severity of claims by territory and line of business. Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts, for example asbestos related claims. The determination and application of the methodology and performance of the calculations are also complex and require the use of actuarial experts. A margin is added to the actuarial best estimate of claims outstanding to make allowance for specific risks identified in assessment of the best estimate. The appropriate margin to recognise is a subjective judgement and estimate taken by the Directors, based on the perceived uncertainty and potential for volatility in the underlying claims. The appropriateness of the calculations rely on the integrity of the underlying data, which is sourced from a number of systems which are subject to regular reconciliations. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of claims outstanding has a degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements note 22 disclose the level estimated by the Company. | Our procedures included: Control design and observation Evaluation of the governance around the overall reserving process, including the scrutiny applied by the reserving committee. Assessing valuer's credentials We assess the qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. Control observation and operation Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). We tested controls through inspecting or reperforming the reconciliations. Sector experience and Benchmarking Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on historical experience, current trends and benchmarking to our own industry knowledge. Independent re-performance Independent re-projection of the reserve balances for certain classes of business. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures. We have projected 60% of the estimated reserves and peer reviewed 20% of the Company's portfolio. Sensitivity analysis In respect of the Company's exposures in relation to UK Asbestos, we challenged the Company's estimate of losses by performing sensitivity analysis over key judgements and assumptions. Margin evaluation Evaluation of the appropriateness of the margin to be applied to the actuarial best estimate. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate. Our results Based on the work performed, we conclude that the valuation of the claims outstanding to be within our acceptable range. |

Independent auditor’s report to the members of Travelers Insurance Company Limited *continued*

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

| | The risk | Our response |
|---|--|---|
| <p>Going concern - The impact of uncertainties due to the Covid-19 pandemic</p> <p>Refer to page 3 (strategic report) and pages 14 and 33 (financial disclosures).</p> | <p>Unprecedented levels of uncertainty</p> <p>The financial statements explain how the directors’ have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Company’s business model, and how those risks might affect the Company’s financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The impact of Covid-19 is subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown given the rapidly evolving nature of the situation on financial and operational performance.</p> <p>The risks most likely to adversely affect the Company’s available financial resources and its ability to continue to operate through a period of significant disruption brought on by this pandemic are considered to be larger than expected losses on the insured portfolio, declines in the investment portfolio and recoverability of debtors.</p> <p>There are also less predictable but realistic second order impacts such as significant reduction in premium income and a broader economic downturn caused by Covid-19, which could result in a longer period of, and more pronounced reduction in, available financial resources.</p> <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p> | <p>Our procedures included:</p> <p>COVID-19 impact assessment: We have assessed managements’ updated going concern assessment, in light of Covid- 19 related risks on the Company’s operational resilience, financial investments and financial guarantee to ensure the key risks have been captured and considered compared with our own understanding and knowledge of the business.</p> <p>Sensitivity analysis: We reviewed and challenged managements’ analysis of sensitivities over the level of available financial resources indicated by the Company’s financial forecasts, taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively by considering managements’ stress testing of critical factors such as a larger than expected losses on the insured portfolio and declines in the investment portfolio.</p> <p>We also assessed managements’ plans and progress to ensure the continued operation of the business in the face of the disruption caused by Covid-19.</p> <p>Further, we evaluated the degree to which reasonably foreseeable downside scenarios that would impact the Company’s business would be covered by the stress tests that the directors had used within the ORSA.</p> <p>Assessing transparency: We assessed the completeness and accuracy of the matters covered in the going concern disclosure with management’s assessment of the risks and uncertainties of the Company’s ability to pay its liabilities as they fall due.</p> <p>Our results We found the going concern disclosures and basis of preparation without any material uncertainty to be acceptable.</p> |

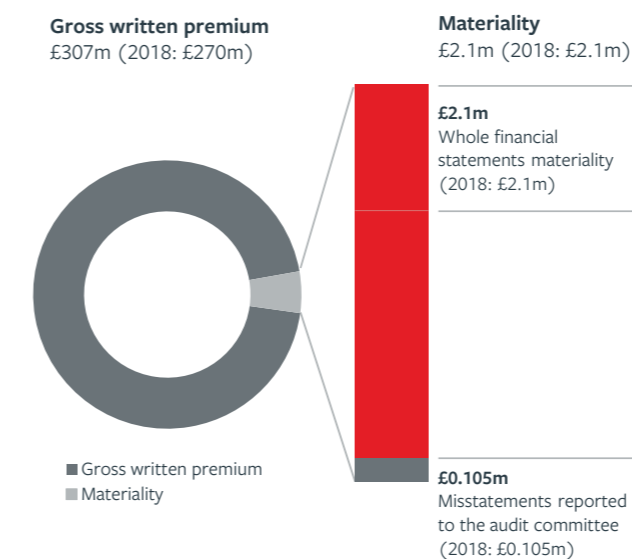
Independent auditor’s report to the members of Travelers Insurance Company Limited *continued*

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

Materiality for the financial statements as a whole was set at £2.1 million (2018: £2.1 million), determined with reference to a benchmark of gross written premium, of which it represents 0.68% (2018: 0.8%).

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £105,000 (2018: £105,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company’s financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

Our responsibility is to conclude on the appropriateness of the Directors’ conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor’s report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors’ conclusions, we considered the inherent risks to the Company’s business model, including the impact of Brexit, COVID-19, and analysed how those risks might affect the Company’s financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

Independent auditor's report to the members of Travelers Insurance Company Limited *continued*

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

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

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

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

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

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), inspection of the Company's regulatory and legal correspondence and understanding of the Company's policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Independent auditor's report to the members of Travelers Insurance Company Limited *continued*

7. Respective responsibilities *continued*

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's licence to operate. We identified the following areas as those most likely to have such an effect: identified Prudential Regulatory Authority - capital and liquidity regulations recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Umar Jamil
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
 15 Canada Square
 London E14 5GL
 16 April 2020



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Travelers Insurance Company Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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