TRAVELERS

TRAVELERS INSURANCE COMPANY LIMITED

Solvency and Financial Condition Report 2018

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Executive Summary

Business and Performance

Travelers Insurance Company Limited ("The Company") is a United Kingdom regulated entity authorised to carry out general insurance business. The ultimate parent company, The Travelers Companies, Inc. ("Travelers"), is a leading provider of property and liability insurance based in the United States. The group has more than 30,000 employees and over 150 years' experience in the insurance industry. Travelers is traded on the New York Stock Exchange as "TRV" and is one of the 30 select companies that comprise the Dow Jones Industrial Average. As at 31 December 2018 Travelers reported total assets of US$ 104.2 billion (2017: US$103.5 billion) and shareholders' equity of US$ 22.9 billion (2017: US$23.7 billion).

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

In 2018 the Company wrote commercial lines insurance in the United Kingdom and, through its branch in Dublin, in Ireland. The Company also covered risks located outside of the UK and Ireland, on a freedom of service basis (in the EEA), or by facultative reinsurance (outside of the EEA), generally in support of its UK and Irish based insureds.

The Company is a provider of insurance solutions targeted at specific customer groups where it can add value with tailored insurance coverage or specific claims handling and risk management expertise. The Company's major target customer groups include technology, healthcare and automotive companies, local authorities, property owners, solicitors, financial institutions, and large corporate insureds.

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

Performance

The Company produces its financial statements in accordance with UK GAAP FRS 102. The Company reported a profit for the year of £4.1m (2017: £21.7m).

System of Governance

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

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

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

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

Executive Summary *continued*

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

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

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

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

Risk Profile

Underwriting Risk is the major risk to which the Company is exposed and is the major driver of its capital requirements. Underwriting risk is managed by the Underwriting Committee, comprising senior underwriting staff as well as members of the actuarial, reinsurance, and claims functions. The Committee ensures adherence to the Board determined appetite in terms of product, line of business, geographical exposure, line sizes and rating adequacy. The underwriting strategy includes limits on the Company's total exposure to specific risks together with limits on geographical and industry exposures. The aim is to ensure a well-diversified book with no excessive exposure in any one industry, line of business or geographical region.

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

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

Valuation for Solvency purposes

The valuation of assets and liabilities on a Solvency II and UK GAAP basis as at 31 December 2018 is summarised opposite.

The excess of assets over liabilities is higher on a Solvency II basis than under UK GAAP. This difference largely reflects the fact that the benefit of the release of the reserve margin carried under UK GAAP, and the recognition of profits on unearned and bound but not incepted premiums, offsets the adjustments required to put technical provisions onto an economic basis.

	Solvency II	UK GAAP	Difference
	£ 'm	*£ 'm*	*£ 'm*
Assets	1,141.5	1,325.9	(83.5)
Gross Technical Provisions	773.9	831.6	(57.7)
Other Liabilities	0.8	28.2	(27.4)
Excess of Assets over Liabilities	466.8	465.2	(1.6)

Capital Management

The Company uses the Solvency II Standard Formula to calculate its regulatory Solvency Capital Requirement ("SCR"). The Company does not use any undertaking specific parameters. The amount of the Company's SCR as at 31 December 2018 was £278.8m (2017: £309.7m) The Company was in compliance with its regulatory capital requirements throughout the year and through to the date of this report.

1. Business and Performance

1.1 Business

Name and legal form of the undertaking

Travelers Insurance Company Limited ("the Company") is a company limited by shares and is incorporated in England. Its registered office address is changed with effect from 1 May 2018 to 23 – 27 Alie Street, London E1 8DS. The previous registered office was Exchequer Court, 33 St Mary Axe, London, EC3A 8AG.

Organisational group structure

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

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

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

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

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

The Company is a member of a group based in the United States of America, which is not an equivalent country for Solvency II group supervision. On 31 December 2015, the Company received a direction given by the PRA under section 138A of the Financial Services and Markets Act 2000, which took effect on 1 January 2016 and which ends on the earlier of: (i) the date the relevant rule is revoked or no longer applies to the firm (in whole or in part); or (ii) 31 December 2018. The direction modifies Rules 20.1 and 20.2 (Group Supervision) of the PRA Rulebook and requires that the Company provides the PRA with certain information. This direction was extended by consent on 4 December 2018 and is now valid until 1 October 2021 unless revoked or any conditions in the modification cease to be fulfilled.

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

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

1. Business and Performance *continued*

Material lines of business and geographical area

In 2018, the Company wrote commercial lines insurance in the United Kingdom, and in the Republic of Ireland through its branch located in Dublin. The Company also covered risks located outside of the UK and Ireland, on a freedom of services basis (in the EEA) or by facultative reinsurance (outside of the EEA), generally in support of its UK and Irish based insureds. The Company also has branches in the Netherlands, France and Germany that have been in run-off since 2001. Approximately 14% (2017: 15%) of the Company's 2018 gross premiums were written in Ireland.

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

Post Balance Sheet Events

On 28 February 2019 an insurance business transfer under Part VII of the Financial Services and Markets Act from Travelers Casualty and Surety Company of Europe Limited (TCSCE) was completed with the sanction of the UK High Court. Under this transfer £59.7M of gross technical reserves were transferred to the Company. All of the business transferred is reinsured 100% with fellow affiliate insurance companies in the US. The 2018 gross written premiums for TCSCE were £1.9m.

As part of the TRV's contingency plan for the effects of the UK's withdrawal from the European Union, The Travelers Companies, Inc. announced in December 2017 its intention to apply to the Central Bank of Ireland (CBI) for authorisation of a separately capitalised legal entity in Ireland to allow it to serve its insureds seamlessly following the UK's exit from the European Union and the EU single market. This legal entity, Travelers Insurance DAC (TIDAC), was authorised by the CBI on 28 January 2019. TIDAC is a wholly owned subsidiary of the Company. In December 2018 the Company provided £5.4m of capital to TIDAC in return for the issuance of new shares. In February 2019 it provided a further £26.5m of capital in return for the issuance of new shares. TIDAC started to trade on 1 April 2019.

In December 2017, The Company initiated an insurance business transfer to TIDAC under Part VII of the Financial Services and Markets Act 2000. The policies to be transferred are those written by the Company's branches in Ireland, France, Germany and the Netherlands. This transfer is expected to complete in Q2 2019.

Performance

The UK commercial lines marketplace remains very competitive. The Company has seen rate increases of 1.3% on its portfolio during the year.

The Company reported a deterioration in results in 2018 with a combined ratio of 106.4% (2017: 97.1%) and a profit for the year after tax of £4.1m (2017: £21.7m).

Material related party transactions

There were three new material related party transactions during the year. The Company has some investments on deposit with Lloyd's to support the underwriting capital requirements of Syndicate 5000, the capital providers of which are wholly owned affiliated group undertakings. The amount of such investments the Company had placed on deposit increased during the year to £90m (2017: £27m). During the year the shareholder provided a capital injection of £29m. Historically a modest amount of reinsurance has been provided by an affiliated group undertaking in the United States. During the year a new property catastrophe layer of £40m xs £10m was written 100% by this affiliated company.

All expenses and salary costs continue to be borne in the first instance by the group's UK management services company, Travelers Management Limited, and some services are provided by affiliated group companies in the US to Travelers Management Limited for the benefit of the Company pursuant to an intercompany services agreement. Investment management is outsourced to The Travelers Indemnity Company, an affiliated group company. No distribution has been made to the shareholder during the year or is proposed as at the year end.

1. Business and Performance *continued*

External auditor

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

1.2 Underwriting performance

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

	2018	2017	Change
	£'m	*£'m*	*£'m/%pts*
Gross written premiums	269.6	230.3	39.3
Net written premiums	231.8	203.2	28.6
Net earned premiums	209.8	201.7	8.1
Incurred claims	(131.8)	(104.1)	(27.7)
Operating expenses	(91.5)	(91.8)	(0.3)
Underwriting Result	(13.5)	(5.8)	(19.3)
Loss Ratio	62.8%	51.6%	(11.2pts)
Expense Ratio	43.6%	45.5%	1.9pts
Combined Ratio	**106.4%**	**97.1%**	**9.3pts**

The Company reported a £13.5m underwriting loss in 2018 (2017: £5.8m underwriting profit) and a 106.4% combined ratio (2017: 97.1%). The deterioration in the underwriting result reflects a reduced level of favourable prior year reserve development by £4.5m, 2018 £4.1m (2017: £8.6m) and a greater frequency and severity of large losses in 2018.

Gross written premiums increased by 17.1% to £269.6m (2017 £230.3m). Gross written premiums in the Company's branch in Ireland increased by £2.4m, or 7%, to £36.8m (2017: £34.4m). The increase was driven by rate increases as well as a 5-point increase in renewal retention. Gross written premiums in the UK grew by 18.8% to £232.8m (2017: £195.9m). Growth in the UK was driven by all business units. Rate change was positive at 1.3% for the year and renewal retention was up 4 points. The growth included £9.1m of business previously written in TRV's syndicate at Lloyd's.

A continued focus on expense management led to a reduction in operating expenses and contributed to lowering the expense ratio by 1.9 points to 43.6% (2017: 45.5%).

The two most material lines of business are General Liability and Property, which respectively comprised 54.9% and 30.6% of net earned premiums in 2018. The General Liability combined ratios improved over the prior year at 88.8% (2017: 96.0%). The Property combined ratio deteriorated to 136.5% (2017: 102.5%) driven by the greater frequency and severity of large losses in 2018. Further information on underwriting performance by material line of business and material geographical areas over the reporting period can be found at Form S.05.01.02 and Form S.05.02.01 respectively within the quantitative returns in the Appendix to this report.

1. Business and Performance *continued*

1.3 Investment performance

During the year the Company continued to invest wholly in high quality government and corporate bonds. These are considered as a single asset class and are managed together. The total investment return for the year reduced by £2.1m to £1.0m (2017: £3.1m). The composition of the investment return for the 12 months to 31 December was as follows:

	2018	2017	Change
	£'m	*£'m*	*£'m*
Investment income	28.0	29.3	(1.3)
Realised investment gains	0.9	1.0	(0.1)
Realised investment losses	(11.6)	(10.2)	(1.4)
Unrealised investment (losses)/gains	(15.5)	(16.0)	0.5
Investment expenses	(0.8)	(1.0)	0.2
Total investment return	1.0	3.1	2.1

Realised investment losses arose as bonds bought above par value have subsequently matured. The portfolio also showed significant unrealised losses during 2018 as market expectations of interest rate movements changed.

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

1.4 Performance of other activities

Other income reduced by £1.4m to £1.6m during the year (2017: £3.0m). This reflects year on year reductions in the level of foreign currency gains and the quantum of the dividend from Pool Re.

1.5 Any other information

During the year the Company produced a total comprehensive loss on a UK GAAP basis of £9.3m (2017 gain of £8.6m). Shareholder's funds increased from £445.5m to £465.2m. The increase was driven by a capital injection from the parent company of £29m received during the year in return for the issuance of 29 million £1 ordinary shares. Own Funds on a Solvency II basis as at 31 December 2018 were £466.8m (2017: £436.8m). The Company's capital position on a Solvency II basis is discussed further in Section 5 of this report.

2. System of Governance

2.1 General information on the system of governance

B.1.1 Governance structure

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

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

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

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

The Board Audit Committee has the following broad responsibilities:

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

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

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

2. System of Governance *continued*

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

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

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

(i) ongoing management and review of progress against the Company's strategy as approved by the Board;
(ii) monitoring of the Company's trading results and financial position;
(iii) review of the Company's operations and functions;
(iv) review of the talent within the Company;
(v) management of special projects;
(vi) reporting to the Company's parent company.

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

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

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

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

The governance structure includes various committees and panels relating to specific activities. Decisions relating to reinsurance activities are made by the Reinsurance Purchasing Panel which reports into the Underwriting Committee. Decisions relating to reserving are considered by the Finance Committee. The interrelationship of various committees and panels is set out on a governance structure chart. This system of governance is subject to regular internal review by the ERC.

There were no other material changes to the governance structure during 2018. The internal governance structure will be expanded in 2019 to include TIDAC.

2. System of Governance *continued*

2.1.2 Remuneration Policy

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

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

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

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

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

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

Additional qualitative factors are also considered, such as:

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

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

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

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

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

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

2. System of Governance *continued*

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

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

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

There were three new material related party transactions during the year with the shareholder. The Company has some investments on deposit with Lloyd's to support the underwriting capital requirements of Syndicate 5000, the capital providers of which are wholly owned affiliated group undertakings. The amount of such investments the Company had placed on deposit increased during the year to £90m (2017: £27m). Also during the year the shareholder provided a capital injection of £29m in return for the issuance of 29 million £1 ordinary shares. In addition historically a modest amount of reinsurance has been provided by an affiliated group undertaking in the United States. During the year a new property catastrophe layer of £40m xs £10m was written 100% by this affiliated company.

2.2 Fit and proper requirements

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

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

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

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

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

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

a. Criminal records check

b. Credit check

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

d. Verification of educational and professional qualifications

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

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

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

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

- the person's role and responsibilities by reference to their job description (and, for approved persons only, the approved person competency set and scope of responsibilities document (as applicable));

2. System of Governance *continued*

- whether the individual has attended the necessary training (including risk and compliance training) in order to remain competent and capable to perform the role.
- the individual's business conduct; and
- whether the person has performed his or her key function in accordance with the relevant conduct standards (which apply to that individual).

2.3 Risk management system including the own risk and solvency assessment

2.3.1 Risk management system

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

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

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

Responsibilities in the risk strategy are summarised as:

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

The Second Line of Defence – Oversight
The second line of defence primarily comprises the risk management, actuarial and compliance functions. The second line of defence provides independent assurance to the Board with regards to the adequacy and effectiveness of risk management.

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

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

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

2. System of Governance *continued*

2.3.2 Own Risk and Solvency Assessment (ORSA)

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

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

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

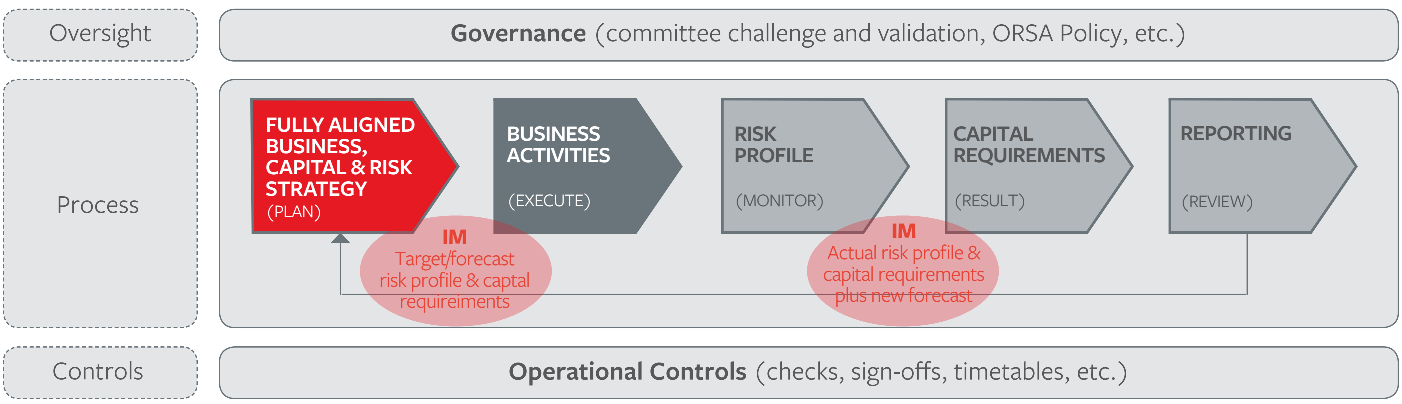
In the ORSA, the Company describes its risks, the capital it requires and the risk management work that assures policyholder benefits. Its production is governed by the Travelers Europe ORSA Policy which is owned by the Chief Risk and Administrative Officer and reviewed at least annually by the Board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

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

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

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

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



2. System of Governance *continued*

2.4 Internal Control System

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

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

2.4.1 Delegation of Responsibilities

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

2.4.2 Compliance Function

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

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

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

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

The Compliance Function reports:

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

2. System of Governance *continued*

2.5 Internal Audit Function

The Travelers Europe legal entities have a discrete internal audit local function based in London which reports into the Head of Internal Audit in the United States. In addition, the Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee, and meets each year with the Audit Committee without executive management in attendance.

Each Business Unit and function within the Company is subject to internal audit review on a two to three year cycle. An audit plan is prepared each year and approved by the Audit Committee and Board. Reports are issued following each audit and circulated to senior management, both locally and within the group in the United States. The resolution of issues identified are tracked to ensure they are addressed on a timely basis.

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

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

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

The Internal Audit Function is managed by the Head of Internal Audit, who is an employee of the Company but has a direct reporting line to the Group's Head of Internal Audit based in Hartford, United States. The Head of Internal Audit has no other role within the Company and has no additional responsibilities

The Internal Audit Function reports:

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

2.6 Actuarial Function

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

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

The Actuarial Function Reports and the Opinions on Underwriting Policy and the Reinsurance Arrangements are produced annually and presented to the Board by the European Head of Actuarial Function, having first been reviewed by the Executive Risk Committee. The Board exercises appropriate additional oversight over the reserving process by receiving quarterly reports from the Company's actuarial team which are presented by the European Head of Actuarial Function. Detailed review of the quarterly reserve reports is delegated to the Finance Committee and on an annual basis the Audit Committee meets with the European Head of Actuarial Function and the External Auditors to receive reserve reports and to discuss reserving issues Controls over the Board and Company's senior management having an undue influence on the activities of the Actuarial Function arise from the maintenance of professional standards of conduct by the in-house actuarial team, oversight from external auditors and peer reviews by other actuaries within the wider Travelers organisation.

2. System of Governance *continued*

2.7 Outsourcing

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

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

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

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

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

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

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

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

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

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

2.8 Any other information

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

3. Risk Profile

3.1 Underwriting Risk

Underwriting risk as at 31 December 2018 comprised 88.0% (2017: 90.4%) of the undiversified basic SCR.

3.1.1 Material Risk Exposures

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

- **Claims:** Inadequate management of claims and inconsistent or inappropriate case reserving.
- **Large Loss Frequency and Severity:** Potential for the frequency and severity of claims payments to be different to that anticipated when pricing risks.
- **Portfolio Aggregation:** Inadequate or ineffective supervision of aggregate exposure, or over reliance on methods of aggregation. Failure to accumulate insurance exposures in an accurate and timely manner, or established appropriate risk appetite levels.
- **Pricing and Selection:** Inadequate pricing or selection of risks that fails to appropriately assess the underlying risk exposures.
- **Reinsurance:** Failure to utilise reinsurance effectively as a tool to protect capital and profits and meet risk appetite guidelines.
- **Reserving:** Uncertainty as to the timing or amount of claims cash flows. Eventual claim payments are different to the reserves estimated for those liabilities.
- **Underwriting portfolio management:** Failure to predict the effect of industry, economic or market trends on individual classes of business profitability, leading to an inappropriate underwriting strategy.

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

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

3.1.2 Material Risk Concentrations

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

Whilst reserve risk diversifies across lines of business, it is dominated by our long-tail classes and is exposed to systemic risks such as claims inflation, legal rulings or changes in settlements such as the Ogden discount rate change.

We do not anticipate any significant changes to our material risk concentration during the business planning time period.

3.1.3 Material Risk Mitigation

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

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

3. Risk Profile *continued*

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

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

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

3.1.4 Risk Sensitivity and Sensitivity Analysis

The major underwriting risk sensitivities are to the adequacy of reserves established at 31 December 2018 and to the projected loss ratio at which business will be written in the next twelve months. Should the net reserves established at 31 December 2018 deteriorate by 5% the impact on shareholders' funds post tax will be to reduce them by £25.0m (2017: reduce by £24.3m). Should the loss ratio projected for the 2019 year deteriorate by 5 points, the impact on shareholders' funds post tax would be a deterioration of £10.0m (2017 : deterioration of £10.5m).

3.2 Market Risk

3.2.1 Material Risk Exposures

Market risk as at 31 December 2018 comprised 8.7% (2017: 7.6%) of the undiversified basic SCR.

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

As at 31 December 2018 the Company had an investment portfolio comprised of government and corporate bonds with a market value of £1,095.6m (2017: £1,065.9m). All investments are high quality, highly liquid and traded on a recognised investment exchange and as such comply with the prudent person principle embedded in the Solvency II directive. The Company does not use derivatives other than to mitigate risk and has not utilised derivatives during 2018 or the prior year.

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

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

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

3.2.2 Material Risk Concentrations

The Company's most material investment exposure is to the bonds of the UK Government. At 31 December 2018 the market value of its holding in UK government bonds was £286.4m (2017: £338.2m) or 26% (2017: 32%) of its investment portfolio. The Company's single largest holding in a corporate bond was £22.5m (2017: £18.3m) or 2% (2017: less than 2%) of its investment portfolio.

The Company had no material net foreign currency exposure as at 31 December 2018 or 31 December 2017.

3. Risk Profile *continued*

3.2.3 Material Risk Mitigation

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

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

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

3.2.4 Risk Sensitivity

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

3.2.5 Sensitivity Analysis

The investment portfolio typically has a relatively short duration approximating the term of the insurance liabilities. If interest rates had risen by 100 basis points as at 31 December 2018, shareholder's equity would have fallen by £23.7m (2017: fallen by £29.9m).

The failure of its largest corporate investment counterparty as at 31 December 2018 would cost the Company £22.5m, or approximately 5% of its net assets. (2017: £18.3m, or approximately 4% of its net assets).

The impact of a 10% movement in the exchange rate for the largest currency exposure impacts the Company's net assets by less than £1m as at both 31 December 2018 and 31 December 2017.

3.3 Credit Risk

3.3.1 Material Risk Exposures

Credit risk as at 31 December 2018 comprised 3.3% (2017: 2.4%) of the undiversified basic SCR.

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

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

3.3.2 Material Risk Concentrations

The Company's biggest investment counterparty is the UK Government, to whom the exposure at 31 December 2018 was £286.4m (2017: £338.2m). The single biggest corporate bond exposure at 31 December 2018 was £22.5m (2017: £18.3m) or 2% of the value of the investment portfolio in 2018 (2017: less than 2%)

The single biggest reinsurer exposure as at 31 December 2018 was £13.3m (2017: £11.6m). There was no material exposure to any individual policyholder.

3. Risk Profile *continued*

3.3.3 Material Risk Mitigation

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

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

The Company policy is to purchase reinsurance only from those reinsurers who meet the Company's security standards. Reinsurance counterparties are subject to a rigorous internal assessment process by reviewing ratings provided by rating agencies and other publicly available information. The Company utilises resources from the Travelers group in managing this risk. Some insurance policies underwritten by the Company provide for a significant individual loss deductible, and/or aggregate deductible, in respect of the compulsory insurance classes of Motor or Employer's Liability. In these cases, the insolvency of the Company's insured would result in a credit exposure for the Company. This type of exposure is managed by requiring the insured to provide collateral, typically in the form of a Letter of Credit. Proactive credit control procedures are in place to limit outstanding balances owed by reinsurers, brokers and policyholders.

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

3.3.4 Risk Sensitivity

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

3.3.5 Sensitivity Analysis

Failure of the largest corporate bond counterparty and reinsurer counterparty at the same time as at 31 December 2018 would cost the Company an amount representing approximately 8% (2017 7%) of its net assets on a UK GAAP basis.

3.4 Liquidity Risk

3.4.1 Material Risk Exposures

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

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

3.4.2 Material Risk Concentrations

The Company has no material liquidity risk concentrations.

3.4.3 Material Risk Mitigation

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

3.4.4 Risk Sensitivity

The Company has no particular sensitivities to liquidity risk.

3. Risk Profile *continued*

3.5 Operational Risk

3.5.1 Material Risk Exposures

Operational Risk is 7.8% (2017: 6.7%) of the Company's final SCR as at 31 December 2018.

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

- Compliance, Legal and Third Parties: Unintentional or negligent failure of professional, regulatory or legal obligations, including contractual disputes raised by, or against, business partners
- Conduct: Failure to pay due regard to the interests of customers and treat them fairly.
- Data Management and Reporting: Flaws relating to capture, maintenance/storage, transmission or reporting of information
- Employee and Employment Practices: Acts inconsistent with HR, employment, or health and safety legislation/policy.
- Financial Crime: Unlawful acts attempted for financial gain
- IT Infrastructure, Security and Change: Risk from systems or transformation initiatives, or disruption of business.

Operational risks are reviewed quarterly and linked to the ORSA through performance of the Risk and Control Self-Assessment (RCSA) process facilitated by the Risk Management Function. Qualitative risk concentration and sensitivity tests linked to the operational risk profile were analysed in the ORSA some of which were:

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

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

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

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

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

3. Risk Profile *continued*

Compliance and Legal	• Documented controls and procedures • Compliance Plan • Risk Committee oversight and reporting • Approval limits • Contracts approval procedure
Systems Risks	**Mitigating Activities / Tools**
Technology	• Documented controls and procedures • Fall-back suppliers/Service Providers for persistent failed delivery • Disaster Review/Recovery Processes
Systems and information Security	• Information Security policies and monitoring • Business Continuity Plan
External Risks	**Mitigating Activities / Tools**
External Party-induced BCP Failure	• Systems Security Checks • Rigorous Business Continuity/Disaster Recovery Plan • Office Premises Security Checks
Failure of Outsourcing Arrangements	• Service-level agreements • Outsourcing approval and monitoring procedures
Loss of key distribution relationships	• Proactive management of Third-party relationship issues • Proactive sourcing of alternative distribution relationships
Changes in Regulatory Framework	• Legal and Compliance monitoring procedures • Regular review of regulatory environment

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

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

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

3.5.2 Material Risk Concentrations.

The Company has no particular operational risk concentrations.

3.5.3 Material Risk Mitigation

See table above.

3.5.4 Sensitivity Analysis

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

3.6 Other material risks

None.

3. Risk Profile *continued*

3.7 Any other information

Stress and Scenario Testing

Stress and scenario testing is an important forward-looking risk management tool. It is used to develop robust and integrated business, capital and risk plans and demonstrates the strong linkages between these core elements of the strategy. It also assists in discussions of low-probability events or events that have not occurred in the recent past, or at all.

Stress testing is used to evaluate the potential forward-looking effects of a set of specified changes in risk factors, corresponding to an exceptional but plausible targeted event. It is used to test business capability against challenging industry or macroeconomic events, or during periods of expansion/growth when innovation leads to new products for which limited, or no historical experience is available.

Scenario testing is typically used to assess (forward-looking) the simultaneous impact of a set of events. Stress and scenario analysis maintains a close relationship with the capital model. Well-functioning scenario analysis requires a robust model and methodology to perform the analysis, at the same time, the results of Stress and Scenario testing can inform refinements to the model and/or stress and scenario methodology.

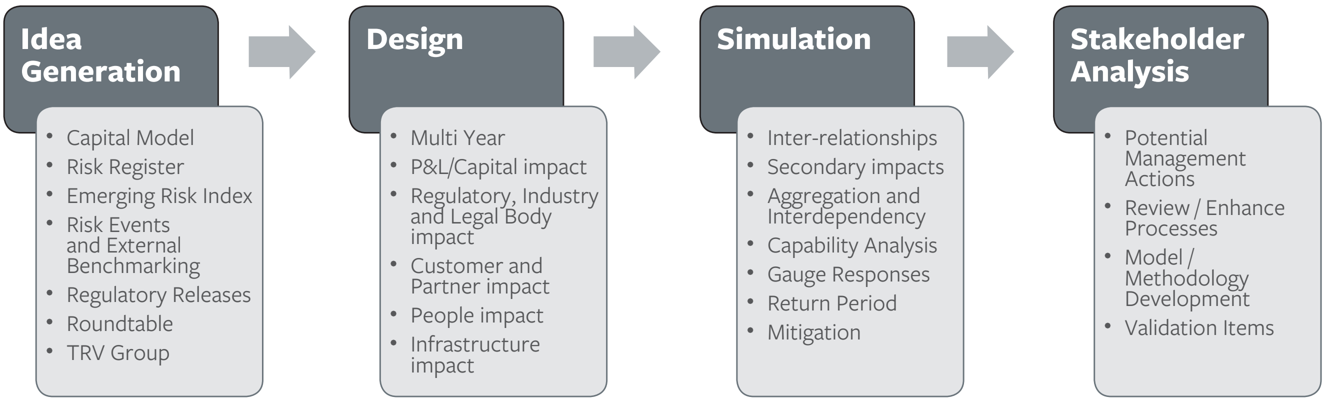


Figure A: Overview of the Stress and Scenario Methodology

The Risk Management function facilitates Stress and Scenario testing and challenges potential management actions in response to these tests so that they are realistic, credible, consistent with regulatory expectations, and achievable; and consider triggers for potential activity..

Overview of the Methodology

Stress and scenario testing is made up of four main components:

I. Scenarios where Risk Appetite is exceeded;

II. Scenarios where Capital limits (Risk Tolerance) is exceeded;

III. Reverse Scenarios that cause business failure (reverse stress tests); and

IV. Stressing of capital modelling parameters.

Appetite and Capital Scenario Analysis

This work is led by the Capital Modelling function. The existing list of stress and scenario tests are reviewed frequently to identify new scenarios or stresses required and how to recalculate historic scenarios. This considers any new information that may have come to light through internal or external sources as presented in Figure A above.

The factors that drive the biggest losses are selected and scenarios are developed that target key controls, or that could cause material loss (for example, underwriting risks are most damaging when reinsurance protection is invalidated through operational risks or due to a large number of sideways risks leading to net retentions).

Once scenarios have been generated to consider each top risk category, the ERM functions, and specialist owners, identify which risks could have a common cause or are likely to occur simultaneously in order to develop an aggregate view.

Generally, stress and scenario tests are accumulated until the overall capital figure or the local appetite is exceeded. The combination of events required to exceed this capital figure is seen as a good test of suitability of the capital amount and modelling.

Quantitative Assessment

- Review the average drivers of capital loss that would take TICL below its Economic Capital Requirement (ECR); or cause a one notch downgrade on standalone basis or erode all capital.
- Rank the largest drivers of capital erosion and report on the correlation between these to sense check whether events could occur that accumulate these losses.
- Attach a likelihood to some of the scenario tests.

Qualitative Assessment

Continually progress thinking on risks to capital, considering emerging risks and inherent risk scenarios, for example: Tests on Group/Operational risks; Pension fund liabilities/assets where appropriate; and Invalidation of reinsurance assets.

4. Valuation for Solvency Purposes

4.1 Assets

The Company's assets on a Solvency II and UK GAAP basis as at 31 December 2018 and 2017 were as set out below:

31 December 2018	Solvency II basis	UK GAAP basis	Difference
	£'m	£'m	£'m
Deferred Tax Asset	23.1	23.7	(0.6)
Financial investments	1,107.7	1,095.7	12.0
Investments in group undertakings	5.5	5.4	0.1
Reinsurance recoverables	75.6	95.5	(19.9)
Insurance and intermediaries receivables	6.9	54.2	(47.3)
Reinsurance receivables	1.5	1.5	-
Receivables (trade, not insurance)	1.5	1.5	-
Cash and cash equivalents	19.7	19.7	-
Accrued interest	-	12.1	(12.1)
Deferred acquisition costs	-	15.7	(15.7)
Total Assets	**1,214.5**	**1,325.0**	**(83.5)**

31 December 2016	Solvency II basis	UK GAAP basis	Difference
	£'m	£'m	£'m
Deferred Tax Asset	23.0	21.5	1.5
Investments	1,078.7	1,065.9	12.8
Reinsurance recoverables	43.9	61.1	(17.2)
Insurance and intermediaries receivables	3.8	38.2	(34.4)
Reinsurance receivables	3.8	3.8	-
Receivables (trade, not insurance)	18.2	18.3	(0.1)
Cash and cash equivalents	19.7	19.7	-
Accrued interest	-	12.8	(12.8)
Deferred acquisition costs	-	15.6	(15.6)
Total Assets	**1,191.1**	**1,256.9**	**(65.8)**

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

Deferred acquisition costs
Deferred acquisition costs comprise brokerage and commission incurred on contracts written during the financial year, but that fall to be earned in future financial years on a UK GAAP basis. Deferred acquisition costs are removed under Solvency II principles.

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

The valuation method for deferred tax balances is the same under IFRS and SII. The difference in the valuation between Solvency II and UK GAAP relates to the application of deferred tax to valuation differences that apply between net assets on a UK GAAP and a Solvency II basis.

The recoverability of the deferred tax asset depends on the availability of future profits. Projected profits of the Company over the three-year business planning cycle has been used as the basis for determining the recoverability of this asset, together with the indefinite tax loss carry forward available in the UK. The Company made taxable profits in 2018 of £4.7m (2017: £27.9m)

4. Valuation for Solvency Purposes *continued*

Investments

The Company classifies its financial investments as "available for sale" and carries those investments at fair value, with unrealised gains and losses being reported through Other Comprehensive Income on a UK GAAP FRS 102 basis. Fair value for securities quoted in active markets is the bid price exclusive of transaction costs. For assets where no active market exists, fair value is determined by referring to quoted prices in active markets for similar assets. The difference in the Solvency II valuation basis compared to UK GAAP is that on a Solvency II basis the value of investments includes accrued interest.

Investments in related undertakings are carried at fair value on a Solvency II basis. For UK GAAP purposes they are carried at cost.

Reinsurance recoverables

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

Insurance and intermediaries receivables

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

Reinsurance receivables/Receivables (trade, not insurance)

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

Cash and cash equivalents

All cash balances are held in accounts which are not subject to any time restriction and can be withdrawn without penalties. Cash is held at book value as a proxy for market value and a consistent valuation basis is used for Solvency II and UK GAAP reporting.

Accrued Interest

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

4. Valuation for Solvency Purposes *continued*

4.2 Technical Provisions

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

	2018	2017
	£'m	*£'m*
Best estimate	728.4	689.8
Risk margin	45.5	48.7
Total gross technical provisions	**773.9**	**738.5**

Technical provisions by Solvency II class of business are reported in the accompanying quantitative templates at S.12.01.02 and S.17.01.02. The most material class is General Liability which comprises 76% (2017: 76%) of the total best estimate as follows:

General Liability	2018	2017
	£'m	*£'m*
Gross best estimate	**522.0**	**524.2**
Risk margin	**34.1**	**37.4**
Total gross technical provisions	**556.1**	**561.6**
Reinsurance best estimate	**(29.9)**	**(27.8)**
Total net technical provisions	**526.2**	**533.8**

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

In addition to the inherent uncertainty of having to forecast the ultimate costs of those claims that have occurred but not yet been advised to the Company as at the balance sheet date and the eventual final costs of the claims that have been reported by the balance sheet date but which remain unsettled, there is considerable uncertainty of forecasting those claims that will arise on exposures written that extend beyond the balance sheet date. As a consequence of these uncertainties the Company has to apply sophisticated estimation techniques to determine the appropriate level of claims provisions. In overview, claims provisions are determined based upon prior claims experience, knowledge of market conditions and trends, and the terms and conditions of the underlying policies of insurance.

- A variety of different statistical techniques are used by the Company's in-house actuaries to determine the appropriate level of provision to carry. These methods include the following:
- Chain ladder development of paid and incurred claims, where claims to date for each accident year are extrapolated based upon the historical development patterns of earlier years;
- Estimates based upon the projection of claims' numbers and average costs;
- Expected loss ratios;
- Bornhuetter Ferguson method, which combines use of expected loss ratios, for the more recent and underdeveloped accident years, and the chain ladder projection of incurred claims data for earlier years.

All projections are carried out separately for each country, product, line of business and accident year. Gross and ceded data is projected separately. Large claims are identified and reserved for separately. Where possible, the Company adopts multiple techniques to estimate the required level of provision. This assists in giving a greater understanding of the trends inherent in the data being projected and setting the range of possible outcomes. The most appropriate estimation technique is then selected taking into account the characteristics of the business class under consideration. These cash-flows are then discounted using the relevant EIOPA yield curves. The data is then aggregated to Solvency II class of business for reporting purposes.

Establishing an appropriate level of claims provision is inherently uncertain. The degree of uncertainty will vary by product and line of business according to the characteristics of the insured risk. The level of uncertainty is also influenced by a number of factors such as claims cost inflation, judicial trends and legislative changes. As a consequence of this uncertainty the eventual cost of settling outstanding claims can vary substantially from the initial estimates. It is not unlikely that the ultimate cost is greater, or lower, than the initial reserves by 5%.

The risk margin is an addition to the best estimate liabilities. The risk margin is an estimate of the cost of providing the capital necessary to support the run off to expiry of the underlying insurance liabilities. We use the full calculation as the basis for

4. Valuation for Solvency Purposes *continued*

calculating the risk margin. This involves taking the Standard Formula SCR and projecting it:

- For 30 years into the future;
- Restricted to the policies legally obliged on the balance sheet date;
- Assuming market risk is nil;
- Using the gross and ceded, premium, claims and expense cashflows from the technical provisions;
- Making various expert judgments used in respect of the risk prevailing at each future projection point.

This is then discounted and multiplied by the prescribed cost of capital rate of 6%. There has been no change to the basis of computing the risk margin relative to that used in the prior year.

To allow for business that is contractually bound but not incepted at the balance sheet date we use assumptions as to binding date, together with data from the latest business plan. For reinsurance we assume a future management action will be to purchase reinsurance cover, similar to the protection offered by current reinsurance treaties, to provide ongoing protection for any unexpired gross exposures. An additional expense provision is calculated to cover the cost of administering the policies and settling the claims in respect of unearned premiums and bound but not incepted policies. For Events Not in Data we use an assumption-based approach which has been benchmarked against the market. There has been no change to the basis of calculating technical provisions in 2018 relative to the prior year.

This calculation approach is applied to all Solvency II classes. On a Solvency II basis gross technical provisions as at 31 December 2018 were £773.9m (2017: £738.5m). On a UK GAAP basis gross technical provisions were £831.6.0m (2017: £775.0m). A reconciliation of the UK GAAP reserves to the Solvency II reserves on a gross and net basis, itemising the key items in reconciliation, for both 2018 and 2017 is set out below:

As at 31 December 2018	Gross	RI	Net
	£'m	*£'m*	*£'m*
UK GAAP reserves	831.6	95.5	736.1
Removal of margin	(22.0)	-	(22.0)
Removal of UPR reserve	(147.9)	(15.5)	(132.9)
Future Premium	(62.3)	(16.3)	(46.0)
Discounting	(19.3)	(1.6)	(17.7)
Claims on unearned/un-incepted business	88.9	11.1	77.8
Commissions on un-incepted business	1.6	-	1.6
Risk Margin	45.4	-	45.4
Additional expenses	29.5	-	29.5
Reinsurance bad debt	-	(1.3)	1.3
Events not in data	28.4	3.2	25.2
Solvency II Technical Provisions	**773.9**	**75.5**	**698.4**

As at 31 December 2017	Gross	RI	Net
	£'m	*£'m*	*£'m*
UK GAAP reserves	775.0	61.1	713.9
Removal of margin	(21.8)	-	(21.8)
Removal of UPR reserve	(124.0)	(12.3)	(111.7)
Future Premium	(54.6)	(14.6)	(40.0)
Discounting	(13.9)	(0.6)	(13.3)
Claims on unearned/un-incepted business	72.7	8.1	64.6
Commissions on un-incepted business	1.9	-	1.9
Risk Margin	48.7	-	48.7
Additional expenses	28.0	-	28.0
Events not in data	26.5	2.2	24.3
Solvency II Technical Provisions	**738.5**	**43.9**	**694.6**

4. Valuation for Solvency Purposes *continued*

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

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

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

Reinsurance recoverables as at 31 December 2018 were £75.5m (2017: £43.9m). Reinsurance recoverables relate to current and expected claims recoveries from reinsurers in respect of all contracts written, including those bound but not incepted, at the balance sheet date, offset by payments due to reinsurers re premiums and reinstatement premiums.

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

4.3 Other Liabilities

The Company's other liabilities as at 31 December 2018 and 31 December 2017 on a Solvency II and UK GAAP basis were as follows:

31 December 2018	Solvency II basis	UK GAAP Basis	Difference
	£'m	*£'m*	*£'m*
Insurance and intermediaries payables	-	3.7	(3.7)
Reinsurance payables	-	10.7	(10.7)
Any other liabilities, not elsewhere shown	0.8	13.8	(13.0)
Total Other Liabilities	**0.8**	**28.2**	**(27.4)**

31 December 2017	Solvency II basis	UK GAAP Basis	Difference
	£'m	*£'m*	*£'m*
Insurance and intermediaries payables	-	3.6	(3.6)
Reinsurance payables	-	6.6	(6.6)
Payables (trade, not insurance)	15.0	15.0	-
Any other liabilities, not elsewhere shown	0.8	11.2	(10.4)
Total Other Liabilities	**15.8**	**36.4**	**(20.6)**

4. Valuation for Solvency Purposes *continued*

The amounts disclosed as Any Other Liabilities, Not Elsewhere Shown, can be further broken down as follows:

31 December 2018	Solvency II basis	UK GAAP basis	Difference
	£'m	*£'m*	*£'m*
Insurance premium tax	-	9.0	(9.0)
Other insurance liabilities	0.2	0.2	-
Reinsurers' share of deferred acquisition costs	-	1.9	(1.9)
Accruals	0.6	2.7	(2.1)
Total	**0.8**	**13.5**	**(13.0)**

31 December 2017	Solvency II basis	UK GAAP basis	Difference
	£'m	*£'m*	*£'m*
Insurance premium tax	-	7.1	(7.1)
Other insurance liabilities	0.1	0.1	-
Reinsurers' share of deferred acquisition costs	-	1.4	(1.4)
Accruals	0.7	2.6	(1.9)
Total	**0.8**	**11.2**	**(10.4)**

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

Insurance and Intermediaries payables
On a Solvency II basis amounts payable to intermediaries that are not overdue are classified within technical provisions.

Reinsurance payables
On a Solvency II basis cash outflows to reinsurers are a component of reinsurance technical provisions. The only element reported as a liability on the balance sheet is the amount outstanding past credit terms, if any.

Payables (trade, not insurance)
Payables comprise amounts payable to other group entities and corporation tax payable. There is no difference in the valuation of payables (trade, not insurance) on a UK GAAP and Solvency II basis. They are recorded at book value as a reasonable proxy for economic value, as all amounts are expected to be paid within six months.

Insurance premium tax
The differences in valuation between UK GAAP and Solvency II is attributable to the amounts being included within technical provisions on a Solvency II basis.

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

Accruals
The difference in valuation between UK GAAP and Solvency II is attributable to the fees payable to the Motor Insurance Bureau, the FSCS and ELTO, which are reclassified as Technical Provisions for Solvency II purposes.

D.4 Alternative methods for valuation

None.

D.5 Any Other information

None.

5. Capital Management

5.1 Own Funds

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

- to protect its ability to continue as a going concern and thus to protect its policyholders;
- to enable an appropriate return to the group's shareholders by allocating appropriate amounts of capital to its products commensurate with the risks taken, and measuring the return on this capital;
- to comply with its regulatory capital requirements;
- to maintain financial strength ratings of AM Best A++ (superior) and S&P AA.

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

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

The Company's Own Funds are comprised principally of Tier 1 capital, which in turn is composed of share capital, share premium and a reconciliation reserve. There are no anticipated dividends over the foreseeable future. There is a small element of tier 3 capital that relates wholly to a deferred tax asset in respect of tax loss carry forwards. The Basic Own Funds by type and tier as at 31 December 2018 and 2017 were:

31 December 2018	Tier 1	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m
Share capital	232.8	-	-	232.8
Share premium	0.7	-	-	0.7
Deferred tax asset	-	-	23.1	23.1
Reconciliation reserve	210.2	-	-	210.2
Total Basic Own Funds	**443.7**	**-**	**23.1**	**466.8**

31 December 2017	Tier 1	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m
Share capital	**203.8**	**-**	**-**	**203.8**
Share premium	**0.7**	**-**	**-**	**0.7**
Deferred tax asset	**-**	**-**	**23.0**	**23.0**
Reconciliation reserve	**209.3**	**-**	**-**	**209.3**
Total Basic Own Funds	**413.8**	**-**	**23.0**	**436.8**

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

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

	Equity on UK GAAP	Equity on Solvency II	Difference
	£'m	£'m	£'m
Equity as at 31 December 2018	465.2	466.8	1.6
Equity as at 31 December 2017	445.5	436.8	8.7

5. Capital Management *continued*

Shareholders' funds on a UK GAAP basis are lower than the excess of assets over liabilities on a Solvency II basis. This is because the benefit under Solvency II of releasing margin, discounting and recognising profit on unearned premiums is greater than the incremental costs of the additional provisions carried under Solvency II for the risk margin, future expenses and events not in data are greater. In 2017 the reverse was true. A detailed reconciliation is set out below:

	31 December 2018 £'m	31 December 2017 £'m
Equity per UK GAAP	**465.2**	**445.5**
Reserve margin release	22.0	21.8
Discounting	17.7	13.3
Events not in data	(25.2)	(24.3)
Additional expenses	(16.0)	(15.5)
Risk Margin	(45.4)	(48.7)
Profit recognised on unearned premiums	49.2	43.2
Deferred tax on UK GAAP to SII adjustments	(0.7)	1.5
Excess of assets over liabilities in Solvency II	**466.8**	**436.8**

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

There are no items deducted from Own Funds. £90m of Own Funds as at 31 December 2018 (2017: £27m) are pledged as collateral to Lloyd's to support the capital requirements of the Travelers Group's wholly aligned Lloyd's syndicate, Syndicate 5000. Although these assets are treated as Own Funds for Solvency II purposes, for internal monitoring purposes these assets are disallowed and treated as inadmissible solvency assets. The Company considered whether it was appropriate to record a contingent liability in respect of these assets but concluded that any call on these assets was sufficiently remote that it was not necessary.

5.2 Solvency Capital Requirement and Minimum Capital Requirement

The Company uses the Standard Formula to calculate its Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"). The Company does not use any Undertaking Specific Parameters. The amount of the Company's MCR and SCR as at 31 December 2018 were £90.4m (2018: £86.0m) and £278.8m (2017: £309.7m) respectively. The SCR by risk module as at 31 December 2018 and 2017 was as set out below:

SCR Component	**31 December 2017**	**31 December 2016**
	£'m	*£'m*
Non-Life Underwriting	244.9	278.4
Life Underwriting	1.5	1.5
Market Risk	24.3	23.7
Counterparty Default Risk	9.3	7.4
Undiversified Basic SCR	280.0	311.0
Diversification credit	(23.0)	(21.9)
Basic SCR	257.0	289.1
Operational risk	21.8	20.6
Solvency Capital Requirement	**278.8**	**309.7**

The reduction in the non-life underwriting risk and the total solvency capital requirement is driven by the purchase of additional catastrophe reinsurance during the year which reduces the Company's net catastrophe retention from £40m to £10m.

The Company has not been required to use any Undertaking Specific Parameters or to make any capital add-on by the supervisory authority. In calculating the SCR using the Standard Formula, the Company used simplified calculations for the Non-Life

5. Capital Management *continued*

Underwriting risk, Market risk and Counterparty Default Risk modules, and within Market risk for the Spread risk and Interest Rate risk sub-modules.

The MCR is calculated by reference to the net technical provisions by class as at 31 December 2018 and by the net written premiums by class written over the last twelve months. The result of the calculation is then subject to a floor and a cap of 25% and 45% of the SCR respectively. As at 31 December 2018 the MCR has been set at £90.4m (2017: £86.0m).

The SCR and MCR are subject to supervisory assessment by the PRA.

5.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

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

5.4 Differences between the Standard Formula and any Internal Models Used

Not Applicable.

5.5 Non-Compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company has remained in compliance with the MCR and SCR throughout the year and through the period since the end of the financial year. The Company's position relative to its capital requirements as at 31 December 2018 and 2017 was as set out below:

31 December 2018	MCR	SCR
	£'m	*£'m*
Capital Requirement	90.4	278.8
Eligible Own Funds	443.7	466.8
Surplus	353.3	188.0
Coverage	**490.8%**	**167.4%**

31 December 2017	MCR	SCR
	£'m	*£'m*
Capital Requirement	86.0	309.7
Eligible Own Funds	413.8	436.8
Surplus	327.8	127.1
Coverage	**481.2%**	**141.0%**

5.6 Any other information

None.

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

Travelers Insurance Company Limited

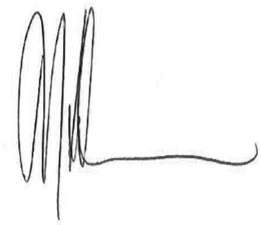
Financial Year ending 31 December 2018

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

We are satisfied that:

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

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



Matthew Wilson
Director and Chief Executive Officer

16 May 2019

Report of the External Independent Auditor

Report of the external independent auditor to the Directors of Travelers Insurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Opinion

Except as stated below, we have audited the following documents prepared by Travelers Insurance Company Limited as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Travelers Insurance Company Limited as at 31 December 2018('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S12.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 ('**the Templates subject to audit**').

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

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

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

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Travelers Insurance Company Limited as at 31 December 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

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

Report of the External Independent Auditor *continued*

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you if:

- the directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Other Information
The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

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

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; 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 for the Audit of the Relevant Elements of the Solvency and Financial Condition Report
It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Relevant Elements of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

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

Report of the External Independent Auditor *continued*

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

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

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1 (2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

Umar Jamil for and on behalf of KPMG LLP

KPMG LLP

15 Canada Square
London E14 5GL

16 April 2019

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

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

Solo standard formula

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

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measure on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'

Appendix A Quantitative Reporting Templates

General information

Undertaking name	Travelers Insurance Company Ltd
Undertaking identification code	5493008G0BNFHVUJ0Q27
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2018
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

Appendix A *continued*

S.02.01.02 **Balance sheet**

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	23,078
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,113,202
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	5,501
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	1,107,701
R0140	*Government Bonds*	601,068
R0150	*Corporate Bonds*	506,632
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	75,552
R0280	*Non-life and health similar to non-life*	75,552
R0290	*Non-life excluding health*	75,552
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	6,951
R0370	Reinsurance receivables	1,490
R0380	Receivables (trade, not insurance)	1,548
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	19,694
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	**1,241,514**

Appendix A *continued*

S.02.01.02 Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	770,501
R0520	*Technical provisions - non-life (excluding health)*	770,501
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	725,294
R0550	*Risk margin*	45,207
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	3,366
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	3,366
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	3,139
R0680	*Risk margin*	227
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	24
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	821
R0900	**Total liabilities**	774,711
R1000	**Excess of assets over liabilities**	466,803

Appendix A *continued*

S.05.01.02 **Premiums, claims and expenses by line of business**

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business				15,145	7,960	7,377	98,152	134,513	1,723			430					265,300
R0120	Gross - Proportional reinsurance accepted				178	62	0	2,178	1,921	0			0					4,339
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share				1,953	11	-881	29,319	5,591	1,723			97					37,813
R0200	Net				13,370	8,011	8,258	71,011	130,843	0			333					231,826
	Premiums earned																	
R0210	Gross - Direct Business				14,227	7,444	9,058	89,419	118,562	2,006			484					241,200
R0220	Gross - Proportional reinsurance accepted				181	57	0	1,888	1,773	0			0					3,899
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share				1,585	31	-821	27,164	5,115	2,006			173					35,253
R0300	Net				12,823	7,470	9,879	64,143	115,220	0			311					209,846
	Claims incurred																	
R0310	Gross - Direct Business				10,119	701	11,102	84,740	64,814	5,437			41					176,954
R0320	Gross - Proportional reinsurance accepted				69	12	0	-94	159				0					146
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share				14	66	-95	39,014	5,649	5,472			67					50,187
R0400	Net				10,174	647	11,197	45,632	59,324	-35			-26					126,913
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net				0	0	0	0	0	0			0					0
R0550	Expenses incurred				4,021	3,095	4,802	41,958	43,133				296					97,305
R1200	**Other expenses**																	
R1300	**Total expenses**																	97,305

Appendix A *continued*

S.05.01.02 Premiums, claims and expenses by line of business

Life

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

Appendix A *continued*

S.05.02.01 **Premiums, claims and expenses by country**

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
R0010			IE					
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	228,591	36,709					265,300
R0120	Gross - Proportional reinsurance accepted	4,194	145					4,339
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	33,060	4,753					37,813
R0200	Net	199,725	32,101	0	0	0	0	231,826
	Premiums earned							
R0210	Gross - Direct Business	205,298	35,902					241,200
R0220	Gross - Proportional reinsurance accepted	3,766	133					3,899
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	30,740	4,513					35,253
R0300	Net	178,324	31,522	0	0	0	0	209,846
	Claims incurred							
R0310	Gross - Direct Business	150,295	22,549					172,844
R0320	Gross - Proportional reinsurance accepted	146	0					146
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	47,855	-545					47,310
R0400	Net	102,586	23,094	0	0	0	0	125,680
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	82,422	14,470					96,892
R1200	**Other expenses**							
R1300	**Total expenses**							96,892

Appendix A *continued*

S.05.02.01 Premiums, claims and expenses by country

Life

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

Appendix A *continued*

S.12.01.02 **Life and Health SLT Technical Provisions**

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**									0	0						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole									0	0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**								3,139	0	3,139						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								0	0							
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re								3,139	0	3,139						
R0100	**Risk margin**								227	0	227						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate										0						
R0130	Risk margin										0						
R0200	**Technical provisions - total**								3,366	0	3,366						

Appendix A *continued*

S.12.01.02 **Non-Life Technical Provisions**

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0020	C0110	C0120	C0130	C0140	C0150	C0160	C0170
R0010	**Technical provisions calculated as a whole**				0	0	0	0	0	0			0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross				4,261	-434	659	26,272	33,777	-188			15					64,362
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				-389	-57	2,185	-789	-578	-256			-221					-105
R0150	**Net Best Estimate of Premium Provisions**				4,650	-377	-1,526	27,061	34,355	68			236					64,467
	Claims provisions																	
R0160	Gross				66,741	3,721	13,319	85,178	488,278	1,904			1,791					660,932
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				2,165	421	2,089	36,959	30,483	1,827			1,713					75,657
R0250	**Net Best Estimate of Claims Provisions**				64,576	3,300	11,230	48,219	457,795	77			78					585,275
R0260	**Total best estimate - gross**				71,002	3,287	13,978	111,450	522,055	1,716			1,806					725,294
R0270	**Total best estimate - net**				69,226	2,923	9,704	75,280	492,150	145			314					649,742
R0280	**Risk margin**				5,008	203	671	5,211	34,082	10			22					45,207
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**				76,010	3,489	14,649	116,661	556,138	1,726			1,828					770,501
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				1,776	363	4,274	36,170	29,906	1,571			1,492					75,552
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				74,234	3,126	10,375	80,491	526,232	155			336					694,949

Appendix A *continued*

S.19.01.21 **Non-life Insurance claims**

Total Non-life business *Accident Year*

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

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170 In Current year	C0180 Sum of years (cumulative)
		Development year												
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											7,844	7,844	7,844
R0160	2009	35,025	43,550	34,651	30,655	35,780	18,073	28,463	6,845	3,204	4,542		4,543	240,788
R0170	2010	56,561	42,813	27,208	29,962	35,538	34,324	8,534	5,232	-96			-96	240,076
R0180	2011	30,797	30,136	25,909	24,909	34,723	12,182	3,643	5,474				5,474	167,773
R0190	2012	21,455	28,321	22,739	17,672	13,709	8,789	1,979					1,979	114,664
R0200	2013	17,365	32,620	26,631	19,711	20,534	14,897						14,897	131,758
R0210	2014	24,837	87,725	17,410	8,651	16,342							16,342	154,965
R0220	2015	42,467	36,746	18,609	12,026								12,026	109,848
R0230	2016	40,952	30,901	13,044									13,044	84,897
R0240	2017	18,581	39,040										39,040	57,621
R0250	2018	28,369											28,369	28,369
R0260												**Total**	143,462	1,338,603

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360 Year end (discounted data)
		Development year											
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											82,111	79,707
R0160	2009	0	0	0	0	0	0	0	50,547	35,651	26,963		26,671
R0170	2010	0	0	0	0	0	0	23,104	22,025	24,719			23,669
R0180	2011	0	0	0	0	0	41,693	47,841	33,537				32,711
R0190	2012	0	0	0	0	50,219	39,820	29,542					28,882
R0200	2013	0	0	0	85,250	54,579	34,075						33,410
R0210	2014	0	0	102,518	78,054	55,183							53,890
R0220	2015	0	129,926	81,350	66,107								64,606
R0230	2016	92,470	94,667	80,231									78,398
R0240	2017	95,729	88,058										85,995
R0250	2018	156,433											152,992
R0260												**Total**	660,932

Appendix A *continued*

S.23.01.01 **Own Funds**

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

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	232,822	232,822		0	
R0030	Share premium account related to ordinary share capital	699	699		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	210,204	210,204			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	23,078				23,078
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	
R0290	**Total basic own funds after deductions**	466,803	443,725	0	0	23,078
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	Total ancillary own funds	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	466,803	443,725	0	0	23,078
R0510	Total available own funds to meet the MCR	443,725	443,725	0	0	
R0540	Total eligible own funds to meet the SCR	466,803	443,725	0	0	23,078
R0550	Total eligible own funds to meet the MCR	443,725	443,725	0	0	
R0580	**SCR**	278,760				
R0600	**MCR**	90,541				
R0620	**Ratio of Eligible own funds to SCR**	167.46%				
R0640	**Ratio of Eligible own funds to MCR**	490.08%				

		C0060
	Reconcilliation reserve	
R0700	Excess of assets over liabilities	466,803
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	256,599
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	210,204
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	6,306
R0790	**Total Expected profits included in future premiums (EPIFP)**	6,444

Appendix A *continued*

S.25.01.21 Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	24,335		
R0020	Counterparty default risk	9,300		
R0030	Life underwriting risk	1,521		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	244,879		
R0060	Diversification	-23,048		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	256,987		
	Calculation of Solvency Capital Requirement	C0100		
R0130	Operational risk	21,773		
R0140	Loss-absorbing capacity of technical provisions	0		
R0150	Loss-absorbing capacity of deferred taxes	0		
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200	**Solvency Capital Requirement excluding capital add-on**	278,760		
R0210	Capital add-ons already set	0		
R0220	**Solvency capital requirement**	278,760		
	Other information on SCR			
R0400	Capital requirement for duration-based equity risk sub-module	0		
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0		
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0		

S.28.01.01 Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCRNL Result	85,954

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	69,226	13,370
R0060	Other motor insurance and proportional reinsurance	2,923	8,011
R0070	Marine, aviation and transport insurance and proportional reinsurance	9,704	8,258
R0080	Fire and other damage to property insurance and proportional reinsurance	75,280	71,011
R0090	General liability insurance and proportional reinsurance	492,150	130,843
R0100	Credit and suretyship insurance and proportional reinsurance	145	0
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	314	333
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCRL Result	69

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	3,139	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	90,541
R0310	SCR	278,760
R0320	MCR cap	125,442
R0330	MCR floor	69,690
R0340	Combined MCR	90,541
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	90,541

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