Report and Accounts 2020

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THE COMPANY

Directors

Sir John Carter (Independent Non-Executive)

Anthony Coughlan (Independent Non-Executive)

Gary Dibb (Independent Non-Executive)

Paul Eddy (Non-Executive)

Mike Gent (Executive)

Maria Olivo (Executive)

Kevin Smith (Chairman)

Matthew Wilson (Chief Executive Officer)

Company Secretary

John Abramson

Registered Office

One Creechurch Place, Creechurch Lane,
London EC3A 5AF

Registered in England No 1034343

Bankers

Citibank NA
Barclays Bank Plc

Auditor

KPMG LLP

STRATEGIC REPORT OF THE DIRECTORS

The Directors of Travelers Insurance Company Limited (the "Company") present their strategic report for the year ended 31 December 2020.

Principal activity

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

Financial results

Travelers Insurance Company Limited reported a loss of £15.1m in 2020 (2019 profit of £4.0m) and a combined ratio of 110.9% (2019 103.7%). The Company benefited from favourable prior year reserve development in 2020 of £2.9m (2019 £20.8m). Excluding favourable prior year reserve development, the combined ratio was 111.9% (2019 112.3%).

The financial result for the year has been impacted by claims arising from the Covid-19 pandemic. Our direct exposure to Covid-19 arises primarily from Business Interruption claims within the Property class of business. Based on detailed exposure assessments we have provided £21.7m net of reinsurance in the 2020 results, a loss ratio impact of 7.3%. Further, we have set aside an additional £13.8m, a loss ratio impact of 4.6%, in the expectation of increased claims frequency and severity in liability and property classes as a result of the recession following the pandemic.

Gross written premiums increased by 20.9% to £370.9m (2019 £306.8m). We have seen growth in all our lines, but in particular in our professional risks book driven by our Solicitors and Directors & Officers accounts, in large part driven by rate which has exceeded 20% in the year.

The growth and a continued focus on expense management has led to a further reduction in the expense ratio by 5.5pts to 34.8% (2019 40.3%). Net earned premiums grew 23% to £298.1m.

The investment return deteriorated to £8.2m (2019 £12.1m), resulting from lower investment yields on newly acquired bonds replacing bonds with higher yields as these matured. We continue to invest in high quality corporate and government bonds with an average credit quality of AA (2019 AA). We expect low investment returns to persist for the foreseeable future. Investments under management totalled £1.2bn (2019 £1.1bn).

Trading environment

Trading conditions remained challenging during 2020. However, the rating environment has strengthened significantly during the year. Our professional risk portfolio, which had already seen significant hardening in 2019, saw further rate strengthening in 2020 of upwards of 20%. Our London Market portfolio saw rate increases in excess of 10% and our Commercial middle market book saw rate increases approaching 10% by the fourth quarter of the year. Our focus during 2021 will be to continue to develop our specialist products and our customer service proposition to grow our book, whilst optimising the opportunity presented by the hardening market to deliver an improved underwriting profit.

We have continued to invest in our electronic trading platforms in 2020, and recently launched our Professional Indemnity Combined product through the Acturis on-line portals. We plan to expand further the breadth of products offered through this distribution channel in 2021.

Capital management

The Company’s financial strength remains strong with net assets improving during the year to £514.9m (2019 £513.9m). As of 8 April 2021 the Company's financial strength ratings are A++ (superior) from AM Best and AA from Standard and Poor’s.

During 2020 the Company did not pay a dividend (2019 £nil).

Brexit

The Company has historically traded in Europe through its branch in Ireland and by writing business on a freedom of services basis to support its UK and Ireland insureds’ exposures in the European Union ("EU"). In order to continue trading in the EU post the UK’s departure, the Company established a new wholly owned subsidiary, Travelers Insurance Designated Activity Company ("TIDAC"). This received its authorisation from the Central Bank of Ireland, the insurance regulatory authority, on the 28 January 2019 and began trading on 1 April 2019.

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

Key Performance Indicators (KPIs)

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

Subsequent events

On 15 January 2021 the Supreme Court passed judgement in the business interruption test case looking at coverage issues surrounding Covid-19. We welcome the Judgment which largely confirmed the outcome of the High Court's ruling. The Judgment represents the final outcome of the Industry Test Case, and there can be no further appeals.

Overall, the outcome was in line with the Company's expectations and was consistent with its reserving assumptions.

STRATEGIC REPORT OF THE DIRECTORS

(continued)

Principal Risks and Uncertainties

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

Insurance risk

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

The Company manages insurance risk by setting an appetite annually through the business planning process, which sets down targets for underwriting volumes, pricing sufficiency and retentions by class of business. Management monitors performance against the business plan throughout the year. The Company uses catastrophe modelling software to model maximum probable loss from catastrophe exposed business. Reserve adequacy is monitored through a quarterly internal actuarial review. The Underwriting Committee oversees underwriting risk and the Finance Committee oversees reserving risk.

Credit risk

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

Market Risk

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

Operational Risk

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

The pandemic has forced a change in the way we operate. The vast majority of staff have worked remotely for the majority of the year. The business continuity plans and procedures we have in place worked well and there was no material impact on the way we carried out business or on our internal processes and controls.

Regulatory Risk

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

Conduct Risk

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

Liquidity Risk

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

STRATEGIC REPORT OF THE DIRECTORS

(continued)

Energy and consumption

For the year ended 31 December 2020 the Company used the following quantity of emissions of carbon dioxide equivalent and consumed the following amount of energy in the United Kingdom:

	Carbon dioxide emissions (Tonnes)	Energy Consumed (KWHs)
Combustion of gas	19.52	106,174
Consumption of fuel	12.70	51,076
Purchase of electricity	168.85	724,252
Total	201.07	881,502

The Company is reporting no energy efficiency actions this year. It is the Company's intention to compile and report on actions in future years. During the year energy efficiency has benefitted hugely from the closure of the offices and the lack of business travel for over nine months of the year.

The carbon dioxide emissions and energy consumption from the activities of the Company were calculated based on the Greenhouse Gas ("GHG") Protocol. The conversion factors used are those from the UK government for 2020.

The intensity ratio is calculated based on gross written premiums and is 5.4 tonnes CO2e for every £10m of gross written premiums.

Section 172 statement

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

Consequences of any decision in the long term

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

The Board has established an Enterprise Risk Management framework through which major risks to which the Company is exposed are identified and to ensure the means are in place for the Company to monitor and manage these risks. Further information is set out in note 4 to the financial statements. Further, the Board considers and approves annually an Own Risk and Solvency Assessment, one purpose of which is to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the Company.

Interests of the Company employees

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

Interests of the Company's Customers, Suppliers and others

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

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

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

STRATEGIC REPORT OF THE DIRECTORS
(continued)

Section 172 statement *(continued)*

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

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

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

Maintaining a reputation for high standards of business conduct

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

Need to act fairly as between shareholders

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

Final remarks

The unexpected turmoil of 2020, driven by the Covid-19 pandemic, meant that like many others, we were faced as a Company with unprecedented levels of uncertainty and change. I am pleased that we were able through the hard work and dedication of our employees, our business model, underwriting approach, and capital strength, to rise successfully to this challenge.

We enter 2021 in a positive mindset and look forward to the return of some form of normality in the near future. Being part of the Travelers Companies, Inc. Group and with the improving rating environment means that the Company is well positioned to take advantages of market opportunities as these arise.

I would like to take this opportunity to extend my thanks to our employees, brokers, suppliers and customers for their ongoing support.

On behalf of the Board

Matthew Wilson
Chief Executive Officer
Travelers Insurance Company Limited

8 April 2021

DIRECTORS' REPORT

The Directors present their annual report together with the financial statements for the 12 months ended 31st December 2020.

Principal activity

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

Business Review

An analysis of the performance of the Company is contained within the Strategic Report and the results for the financial year are set out on pages 9 and 10.

Directors and directors' interests

All the directors set out on page 2 served throughout the year and up to the approval of these accounts.

Disclosure of information to the auditor

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

Audit Committee

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

Going Concern

In determining the basis of preparation, the Board has considered the impact of the Covid-19 global pandemic. The Board considers the main ongoing risks resulting from Covid-19 for the Company relate to a prolonged economic downturn, the likely consequent increase in claims frequency and severity, and the adverse financial impact of this downturn on its policyholders.

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

Accordingly, taking all of the above into account, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for 12 months from the date of signing the financial statements and thus continue to adopt the going concern basis in preparing the annual financial statements.

Indemnity insurance

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

Supplier payment policies

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

Environment

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

Political contributions

Political contributions were £nil during 2020 (2019 £nil).

Auditors

Pursuant to the Company’s audit tender process in 2020, Mazars will be appointed as auditor of the Company for the financial year ending 31 December 2021. KPMG will resign as the Company's auditor following completion of their statutory and regulatory audits for the financial year ended 31 December 2020.

DIRECTORS' REPORT
(continued)

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

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

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

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

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

On behalf of the Board

John Abramson
Company Secretary

8 April 2021

One Creechurch Place, Creechurch Lane,
London EC3A 5AF

PROFIT AND LOSS ACCOUNT : TECHNICAL ACCOUNT - GENERAL BUSINESS

for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Gross premiums written	6	370,850	306,778
Outward reinsurance premiums		(47,816)	(43,324)
Net premiums written		323,034	263,454
Change in the gross provision for unearned premiums	22	(30,212)	(24,451)
Change in the provision for unearned premiums, reinsurers' share	22	5,266	1,575
Earned premiums, net of reinsurance		298,088	240,578
Allocated investment return transferred from the non-technical account		8,243	12,120
Claims paid:			
Gross amount		(132,970)	(144,542)
Reinsurers' share		9,981	(6,324)
Net claims paid		(122,989)	(150,866)
Change in the provision for claims:			
Gross amount	22	(115,653)	(25,328)
Reinsurers' share	22	11,899	23,644
Change in the net provision for claims		(103,754)	(1,684)
Claims incurred, net of reinsurance		(226,743)	(152,550)
Net operating expenses	9	(103,774)	(96,940)
BALANCE ON THE TECHNICAL ACCOUNT		(24,186)	3,208

The notes on pages 15 to 33 form part of these financial statements.

PROFIT AND LOSS ACCOUNT : NON-TECHNICAL ACCOUNT

for the year ended 31 December 2020

	Note		2020 £000		2019 £000
Balance on the general business technical account			(24,186)		3,208
Investment income	8	24,573		27,542	
Investment expenses and charges	10	(16,330)		(15,422)	
Net investment return		8,243		12,120	
Allocated investment return transferred to the general business technical account		(8,243)		(12,120)	
Other income	11		3,295		1,911
(Loss)/profit on ordinary activities before tax	5 12		(20,891)		5,119
Tax credit/(charge) on (loss)/profit on ordinary activities	14		5,770		(1,113)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR			(15,121)		4,006

The notes on pages 15 to 33 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Note	2020 £000	2019 £000
(Loss)/profit for the financial year		(15,121)	4,006
Unrealised gains on investments	16	19,407	11,212
Tax charge on unrealised gains on investments	14	(3,256)	(2,087)
Currency translation gains on foreign currency net investments		-	1,664
Tax charge on currency translation gains	14	-	(316)
TOTAL COMPREHENSIVE INCOME		1,030	14,479

The notes on pages 15 to 33 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

		Share capital	Share premium	Profit and loss account	Revaluation reserve	Total equity
		£000	£000	£000	£000	£000
At 1 January 2019	*Note*	232,822	699	263,158	(31,519)	465,160
Profit for the financial year		-	-	4,006	-	4,006
Other gains recognised in Other Comprehensive Income						
Unrealised gains on investments, net of tax		-	-	-	9,125	9,125
Currency translation differences on foreign currency net investments, net of tax		-	-	1,348	-	1,348
Increase in share capital	21	34,233	-	-	-	34,233
Balance at 31 December 2019		267,055	699	268,512	(22,394)	513,872
Loss for the financial year		-	-	(15,121)	-	(15,121)
Other gains recognised in Other Comprehensive Income						
Unrealised gains on investments, net of tax		-	-	-	16,151	16,151
Balance at 31 December 2020		267,055	699	253,391	(6,243)	514,902

The profit and loss account includes £12.3m (2019 £11.1m) of net realised losses, net of tax, which have been transferred from the revaluation reserve, of this £13.0m losses (2019 £10.9m losses) relate to amounts brought forward from 31 December 2019.

The notes on pages 15 to 33 form part of these financial statements.

BALANCE SHEET
as at 31 December 2020

	Note	2020	2019
ASSETS		£000	£000
Investments			
Investment in group undertaking	15	58,819	58,819
Other financial investments	16	1,176,600	1,073,174
		1,235,419	1,131,993
Reinsurers' share of technical provisions			
Provision for unearned premiums	22	21,411	16,502
Claims outstanding	22	112,631	101,863
		134,042	118,365
Debtors			
Debtors arising out of insurance operations	17	83,500	75,359
Debtors arising out of reinsurance operations	18	2,090	4,609
Other debtors	19	1,236	4,760
		86,826	84,728
Other assets			
Deferred tax asset	20	23,887	21,252
Cash at bank and in hand		70,640	31,363
		94,527	52,615
Prepayments and accrued income			
Accrued interest		9,704	10,670
Deferred acquisition costs	22	22,852	19,216
		32,556	29,886
TOTAL ASSETS		1,583,370	1,417,587

The notes on pages 15 to 33 form part of these financial statements.

BALANCE SHEET (continued)
as at 31 December 2020

	Note	2020 £000	2019 £000
LIABILITIES			
Capital and reserves			
Called up share capital	21	267,055	267,055
Share premium account		699	699
Profit and loss account		253,391	268,512
Revaluation reserve		(6,243)	(22,394)
Shareholders' funds attributable to equity interests		514,902	513,872
Technical provisions			
Provision for unearned premiums	22	201,954	171,298
Claims outstanding	22	820,137	700,945
		1,022,091	872,243
Creditors			
Creditors arising out of insurance operations	24	2,730	2,810
Creditors arising out of reinsurance operations		14,348	12,008
Other creditors including taxation and social security	25	24,608	11,486
		41,686	26,304
Accruals and deferred income	26	4,691	5,168
TOTAL LIABILITIES		1,583,370	1,417,587

These financial statements were approved by the Board of Directors on 8 April 2021 and were signed on its behalf by:

Mike Gent

Mike Gent
Chief Financial Officer
8 April 2021

Travelers Insurance Company Limited
Registered in England No 1034343

The notes on pages 15 to 33 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

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

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

The financial statements of the Company were approved for issue by the Board of Directors on 8 April 2021. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements have been presented in Sterling, rounded to the nearest thousand pounds.

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

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

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

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

In determining the basis of preparation, the Board has considered the impact of the Covid-19 global pandemic. The Board considers the main ongoing risks resulting from Covid-19 for the Company relate to a prolonged economic downturn, the likely consequent increase in claims frequency and severity, and the adverse financial impact of this downturn on its policyholders.

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

Accordingly, taking all of the above into account, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for 12 months from the date of signing the financial statements and thus continue to adopt the going concern basis in preparing the annual financial statements.

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

2 Significant accounting policies

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

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

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

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

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

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

Notes to the financial statements *(continued)*

2 Significant accounting policies
(continued)

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

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

Claims outstanding

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

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

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

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

- Chain ladder development of paid and incurred claims, where claims to date for each accident year are extrapolated based upon the historical development patterns of earlier years;
- Estimates based upon the projection of claims' numbers and average costs; and
- 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 product, line of business and separately on a gross and ceded basis.

Large claims are identified and reserved for separately.

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

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

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

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

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

Notes to the financial statements (continued)

2 Significant accounting policies
(continued)

Investment in group undertaking
Investment in group undertaking are measured at cost less accumulated impairment.

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

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

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

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

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

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

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

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

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

- whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value;

- the likelihood of recovery in full of the principal and interest (i.e., whether there is a credit loss);

- the financial condition, near-term and long-term prospects for the issuer including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

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

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

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

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

Notes to the financial statements (continued)

2 Significant accounting policies
(continued)

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

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

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

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

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

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

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

3 Use of critical judgements, assumptions and estimates

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

The most critical estimate included within the Company's balance sheet is that in respect of losses incurred but not reported. The total gross estimate within the Company’s balance sheet as at 31 December 2020 was £534.4m (2019 £417.8m). Estimates for losses incurred but not reported are continually being re-evaluated based on the Company's claims experience, developments in the broader industry and expectations of changes in future years. There is though an inherent uncertainty in estimating claims provisions at the end of the reporting period for the eventual outcome of outstanding notified claims and in estimating the number and value of claims still to be notified. In particular the estimate of provisions for the ultimate cost of asbestos exposures is subject to significant uncertainties due to the slow emergence and longer settlement period for these claims. There is thus a risk that material adverse changes to claims estimates in future years may have a critical impact on the Company’s reported performance and financial position.

Significant assumptions are required in valuing the Company's deferred tax asset. The deferred tax asset relates to carry forward tax losses and is valued using an estimate of future profits by financial year and then applying the latest tax rate which has received Royal Assent and which might reasonably be expected to apply when the timing differences reverse.

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

The deferred tax asset in respect of taxable losses carried forward was £23.3m at 31 December 2020 (2019 £21.3m).

Notes to the financial statements (continued)

4 Risk and capital management

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

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

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

Insurance risk

Management of insurance risk

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

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

On a monthly basis performance reviews are conducted to monitor premium production, business mix, rating adequacy and claims activity relative to targets set out in the Company's annual business plan. On an quarterly 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.

Concentration of insurance risk

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

	United Kingdom	Ireland	Other	Total
2020	£000	£000	£000	£000
Credit and Suretyship	3,115	-	1,468	4,583
Fire and other damage to property	121,966	10,075	5,701	137,742
Marine and aviation	13,324	-	3,767	17,091
Motor	13,233	6,617	93	19,943
Third party liability	167,112	12,428	11,313	190,853
Miscellaneous	547	-	91	638
Total	319,297	29,120	22,433	370,850

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

Notes to the financial statements (continued)

4 Risk and capital management
(continued)

Net loss ratio sensitivity

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

	2020	2019
	£000	£000
Total decrease in result after tax and net assets	2,415	1,997

Profit and loss sensitivity to expenses

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

	2020	2019
	£000	£000
Total decrease in result after tax and net assets	4,203	4,023

Credit risk

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

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

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

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

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

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

2020	AAA	AA	A	BBB	Not rated	Total
	£000	£000	£000	£000	£000	£000
Other financial investments	464,597	454,934	257,069	-	-	1,176,600
Reinsurance claims outstanding	-	77,668	33,446	-	1,517	112,631
Reinsurance debtors	-	1,505	585	-	-	2,090
Insurance debtors	-	-	-	-	83,500	83,500
Other debtors	-	-	-	-	1,236	1,236
Cash at bank and in hand	-	-	70,640	-	-	70,640
Total by rating	464,597	534,107	361,740	-	86,253	1,446,697
Percentage by rating	32.1%	36.9%	25.0%	0.0%	6.0%	100.0%

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

Notes to the financial statements (continued)

4 Risk and capital management
(continued)

Credit risk *(continued)*
The largest counterparty exposure within the AAA rating was the European Investment Bank as at 31 December 2020 and 2019. Within the AA rating, the largest counterparty exposure was the UK government as at 31 December 2020 and 2019. With the exception of AAA and AA government debt securities the largest credit exposure does not exceed 5% of the Company's total financial assets.

Within the AA rating, the largest reinsurance counterparty at 31 December 2020 and 2019 was Travelers Indemnity Company.

As at 31 December 2020 and 2019 the Company held no material financial assets that were past due or impaired beyond their reported fair values. For the current and prior periods the Company did not experience any defaults on investments.

As at 31 December 2020 the Company had pledged as collateral to support the capital requirements of fellow subsidiary operations £83.0m (2019 £130.5m) of government securities.

As at 31 December 2020 the Company had pledged as collateral to support its obligations under the 80% quota share reinsurance with its subsidiary Travelers Insurance Designated Activity Company £166.5m of fixed income securities and cash (2019: £110.5m). See note 28 for further details.

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

	Within terms	0 - 1 month	2 - 3 months	Over 3 Months	Impairments	Total
	£000	£000	£000	£000	£000	£000
2020						
Other financial investments	1,176,600	-	-	-	-	1,176,600
Reinsurance claims outstanding	112,631	-	-	-	-	112,631
Reinsurance debtors	2,013	9	30	38	-	2,090
Insurance debtors	74,425	3,410	2,792	3,010	(137)	83,500
Other debtors	1,236	-	-	-	-	1,236
Cash at bank and in hand	70,640	-	-	-	-	70,640
Total	1,437,545	3,419	2,822	3,048	(137)	1,446,697

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

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

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

Interest rate risk
The Company's investment portfolio is comprised exclusively of high quality fixed income government and corporate bonds. The fair value of the investment portfolio is inversely correlated to movement in market interest rates. If market interest rates rise, the fair value of the Company's fixed income investments will fall. The investments typically have relatively short durations and the portfolio is managed to minimise interest rate risk. If market interest rates had risen by 100 basis points as at the balance sheet date the shareholder's equity would have fallen by £25.2m (2019 £21.2m) after tax.

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

Notes to the financial statements (continued)

4 Risk and capital management
(continued)

Currency risk

The Company operates principally in the UK. The Company has a currency exposure to the 80% reinsurance quota share agreement with its subsidiary TIDAC. The Company also has currency exposures to intercompany transactions with its parent company in the United States. Accordingly its net assets are subject to foreign exchange movements between Sterling and the Euro and US dollar. The Company manages these exposures by monitoring them regularly and ensuring its Euro and US dollar asset exposures, other than that in respect of the cost of its investment in subsidiary, are matched by broadly equivalent Euro and US dollar liability exposures, with any surplus net assets held in Sterling.

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

	Pound sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Net assets as at 31 December 2020	456,861	65,611	(7,571)	1	514,902
Net assets as at 31 December 2019	465,265	51,873	(3,266)	-	513,872

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

	Increase Sterling/Euro £000	Decrease Sterling/Euro £000	Increase Sterling/USD £000	Decrease Sterling/USD £000
Increase/(decrease) in net assets 31 December 2020	(617)	755	688	(841)
Increase/(decrease) in net assets 31 December 2019	631	(772)	297	(363)

Liquidity risk

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

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

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

2020	Total £000	0 - 1 year £000	2 - 5 years £000	More than 5 years £000
Technical provisions	820,137	288,461	417,734	113,942
Creditors	41,686	41,686	-	-
Total	861,823	330,147	417,734	113,942

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

Notes to the financial statements (continued)

4 Risk and capital management
(continued)

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

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

The Company's capital comprises share capital, retained earnings and revaluation reserves. For internal modelling purposes the Company treats its available capital as being its shareholder's equity, less capital pledged to support the capital needs of affiliates. As at 31 December available capital on this basis comprised £431.5m (2019 £383.4m).

The Company is subject to capital requirements imposed by both its regulator and rating agencies. The insurance company capital regime in the UK is on a Solvency II basis. Under this regime the Company's capital requirement is determined using the standard formula. As management sets the target economic capital for the Company, the regulatory and rating agency capital requirements are treated as minimum requirements. In setting its target economic capital and determining capital to allocate to different products the Company employs its internal capital model. At 31 December 2020 the Company's regulatory solvency capital requirement was £347.9m (2019 £286.6m).

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

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

5 Continuing and run-off operations

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

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

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

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

	2020		2019	
	Continuing operations £000	Run-off operations £000	Continuing operations £000	Run-off operations £000
Net premiums written	323,034	-	263,455	(1)
Net premiums earned	298,088	-	240,579	(1)
Allocated investment return	8,120	123	12,193	(73)
	306,208	123	252,772	(74)
Claims paid - gross amount	(131,323)	(1,647)	(156,690)	12,148
Claims paid - reinsurers' amount	9,955	26	16,148	(22,472)
Change in provisions for claims - gross amount	(116,447)	794	(11,505)	(13,823)
Change in provisions for claims - reinsurers' amount	11,922	(23)	1,662	21,982
Claims incurred, net of reinsurance	(225,893)	(850)	(150,385)	(2,165)
Net operating expenses	(103,598)	(176)	(96,581)	(359)
Balance on the technical account	(23,283)	(903)	5,806	(2,598)
Investment income	24,449	124	27,615	(73)
Investment expenses and charges	(16,329)	(1)	(15,422)	-
	8,120	123	12,193	(73)
Allocated investment return transferred to the general business technical account	(8,120)	(123)	(12,193)	73
Other income/(charges)	6,109	(2,814)	1,936	(25)
(Loss)/Profit on ordinary activities before tax	(17,174)	(3,717)	7,742	(2,623)

Notes to the financial statements (continued)

6 Analysis of underwriting result

(a) Analysis of gross premiums and loss before taxation

2020	Gross premiums written £000	Gross premiums earned £000	Loss before tax £000
By geographical segment			
United Kingdom	337,109	307,909	(21,572)
Republic of Ireland	33,741	32,729	681
Total	370,850	340,638	(20,891)

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

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

(b) Analysis of gross premiums written

	2020 £000	2019 £000
Resulting from contracts concluded by the Company :		
Direct	256,217	238,619
Inwards reinsurance	114,633	68,159
	370,850	306,778

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

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

2020	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Underwriting Profit/(loss) £000
Motor	19,943	19,213	(18,016)	(7,215)	(1,366)	(7,384)
Fire and other damage to property	137,742	121,076	(84,047)	(45,433)	(8,982)	(17,386)
Third party liability	190,853	176,526	(136,184)	(48,957)	967	(7,648)
Credit and Suretyship	4,583	4,560	31	(1,474)	(2,611)	506
Marine and aviation	17,091	18,681	(10,278)	(5,729)	(2,972)	(298)
Miscellaneous	638	582	(129)	(388)	(284)	(219)
	370,850	340,638	(248,623)	(109,196)	(15,248)	(32,429)

2019	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Underwriting Profit/(loss) £000
Motor	18,185	18,739	(7,993)	(7,075)	(2,534)	1,137
Fire and other damage to property	111,990	104,675	(77,097)	(42,017)	(11,678)	(26,117)
Third party liability	154,923	146,518	(83,545)	(45,044)	102	18,031
Credit and Suretyship	4,386	3,682	4,177	(1,428)	(6,475)	(44)
Marine	16,416	7,673	(2,736)	(4,788)	(875)	(726)
Miscellaneous	878	1,040	(2,676)	(715)	1,158	(1,193)
	306,778	282,327	(169,870)	(101,067)	(20,302)	(8,912)

Commission payable amounted to £51.8m (2019 £42.3m).

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

Notes to the financial statements (continued)

7 Prior years' claims provisions

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

	2020 £000	2019 £000
Motor	727	6,155
Fire and other damage to property	9,992	4,236
General liability	(7,828)	9,907
Marine	(54)	1,301
Miscellaneous	86	(805)
	2,923	20,794

8 Investment income

	2020 £000	2019 £000
Income from investments	24,287	26,571
Gains on the realisation of investments	286	971
	24,573	27,542

9 Net operating expenses

	2020 £000	2019 £000
Acquisition costs	51,768	42,265
Change in gross deferred acquisition costs	(3,562)	(3,624)
	48,206	38,641
Administrative expenses	60,567	62,426
Gross operating expenses	108,773	101,067
Reinsurance commissions and profit participation	(4,759)	(4,273)
Change in deferred reinsurance commission	(240)	146
	103,774	96,940

10 Investment expenses and charges

	2020 £000	2019 £000
Investment management expenses	841	755
Losses on the realisation of investments	15,489	14,667
	16,330	15,422

Notes to the financial statements (continued)

11 Other income/expense

	2020 £000	2019 £000
Foreign exchange gain	663	866
Pool Re distribution	1,266	273
Fee income	1,267	1,209
Other income/(expense)	99	(437)
	3,295	1,911

12 (Loss)/profit on ordinary activities before tax

	2020 £000	2019 £000
Profit on ordinary activities before tax is stated		
after crediting		
Income from fixed income investments	24,287	26,571
after charging		
Auditor's remuneration:		
Audit of these financial statements	221	194
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit-related assurance services	131	140

13 Remuneration of directors

	2020 £000	2019 £000
Directors' fees	91	107
Directors' emoluments	592	589
Company contributions to money purchase schemes	10	10

The salary and bonus of the highest paid director for the year was £429,416 (2019 £426,014) and the pension contribution to a money purchase scheme was £5,000 (2019 £5,000). Share options were exercised in 2020 (were not exercised in 2019).

	Number of directors	
Retirement benefits are accruing to the following number of directors:	2020	2019
Money purchase schemes	2	2
Defined benefit schemes	-	-
The number of directors who exercised share options was	1	-
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	-	-

Notes to the financial statements (continued)

14 Taxation

Analysis of total tax charge for the year

(a) Tax included in the non-technical account

	2020 £000	2019 £000
United Kingdom Corporation Tax		
United Kingdom Corporation Tax at 19.0% (2019 19.0%)	-	893
Adjustment in respect of prior periods	113	143
Total current tax charge	113	1,036
Deferred tax		
Deferred tax credit	(3,864)	(103)
Changes in tax rate	(2,019)	180
Tax (credit)/charge on (loss)/profit on ordinary activities	(5,770)	1,113

	2020	2019
(b) Tax included in Other Comprehensive Income	£000	£000
Deferred tax:		
Charge on currency translation gains	-	316
Charge on unrealised gains on investments	3,256	2,087
Tax charge on Other Comprehensive Income	3,256	2,403

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

The tax credit for the year is higher than (2019 higher than) the standard rate of corporation tax in the UK:

	2020 £000	2019 £000
(Loss)/profit on ordinary activities before tax	(20,891)	5,119
Tax using the corporation tax rate of 19.0% (2019 19.0%)	(3,969)	973
Effect of tax rate change	(2,019)	180
Prior year adjustments - current tax	113	143
Prior year adjustments - deferred tax	345	(131)
Non-taxable income	(240)	(52)
Total tax (credit)/charge	(5,770)	1,113

As at 31 December 2020 the Company had tax losses carried forward of £122.5m. (2019 £100.6m).

Notes to the financial statements (continued)

15 Investment in Group Undertaking

The following table gives information on TIDAC as at 31 December 2020:

	2020 £000	2019 £000
Cost	58,819	58,819
Net assets	58,207	55,680
Class of shares held	Ordinary	Ordinary

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

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

16 Investments

(a) Fair value

	Fair Value 2020 £000	Fair Value 2019 £000	Cost 2020 £000	Cost 2019 £000
Debt and other fixed income securities	1,176,600	1,073,174	1,181,979	1,097,967
Included in debt and other fixed income securities:				
UK fixed income securities	254,589	321,446	260,644	335,282
Overseas fixed income securities	922,011	751,728	921,335	762,685
	1,176,600	1,073,174	1,181,979	1,097,967

(b) Movement in the year

	2020 £000	2019 £000
Investments brought forward	1,073,174	1,095,642
Purchases	381,522	325,859
Fair value adjustments	19,407	11,212
Disposals/maturities	(302,632)	(352,390)
Currency translation movements	5,129	(7,149)
Investments carried forward	1,176,600	1,073,174

Notes to the financial statements (continued)

16 Investments
(continued)

(c) Fair value measurement of investments

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

- Level 1 - The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access the measurement date;

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;

- Level 3 - Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability and therefore, prices are determined using a valuation technique.

The Company utilised a pricing service to estimate the fair value of its investments at both 31 December 2020 and 31 December 2019.

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

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

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

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets as at 31 December 2020	-	1,176,600	-	1,176,600
Financial assets as at 31 December 2019	-	1,073,174	-	1,073,174

Notes to the financial statements (continued)

17 Debtors arising out of insurance operations

	2020 £000	2019 £000
Amounts owed by intermediaries	83,254	75,255
Amounts owed by policyholders	246	104
	83,500	75,359

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

18 Debtors arising out of reinsurance operations

	2020 £000	2019 £000
Amounts owed by reinsurers	2,090	4,609

19 Other debtors

	2020 £000	2019 £000
Amounts owed by group undertakings	696	3,069
UK tax recoverable	-	996
Foreign tax recoverable	298	299
Other debtors	242	396
	1,236	4,760

20 Deferred tax asset

The amounts provided for deferred taxation are set out below:

2020	Tax losses carried forward £000	Equalisation reserve £000	Unrealised losses on investments £000	Timing differences on realised losses on investments £000	Total net deferred tax asset £000
Deferred tax asset/(liability) brought forward	17,905	(755)	4,277	(175)	21,252
Current year P&L	3,794	416	-	-	4,210
Prior year P&L	(346)	-	-	-	(346)
Other comprehensive income	(167)	-	(3,689)	175	(3,681)
Impact of changes in tax rate	2,107	(88)	433	-	2,452
	23,293	(427)	1,021	-	23,887

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

The tax losses carried forward have no time limit. There were no amounts that were unprovided for in the year (2019 £nil). The net reversal of deferred tax expected to occur next year is £1.0m (2019 £0.9m), relating to the release of tax losses carried forward of £5.0m (2019 £5.0m).

Notes to the financial statements (continued)

21 Called up share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
267,055,368 (2019 267,055,368) ordinary shares of £1 each	267,055	267,055

22 Technical provisions and deferred acquisition costs

(a) Unearned premium provision

	2020 £000 Gross	2020 £000 Reinsurance	2020 £000 Net	2019 £000 Gross	2019 £000 Reinsurance	2019 £000 Net
Balance as at 1 January	171,298	16,502	154,796	147,947	15,013	132,934
Change in unearned premiums	30,212	5,266	24,946	24,451	1,575	26,026
Effect of movements in exchange rates	444	(357)	801	(1,100)	(86)	(4,164)
Balance as at 31 December	201,954	21,411	180,543	171,298	16,502	154,796

(b) Claims outstanding

	2020 £000 Gross	2020 £000 Reinsurance	2020 £000 Net	2019 £000 Gross	2019 £000 Reinsurance	2019 £000 Net
Balance as at 1 January	700,945	101,863	599,082	683,679	80,465	603,214
Change in claims outstanding	115,653	11,899	103,754	25,328	23,644	1,684
Effect of movements in exchange rates	3,539	(1,131)	4,670	(8,062)	(2,246)	(5,816)
Balance as at 31 December	820,137	112,631	707,506	700,945	101,863	599,082
Claims notified	264,404	28,246	236,158	265,388	40,552	224,836
Claims incurred but not reported	534,430	84,252	450,178	417,763	61,151	356,612
Unallocated loss adjustment expenses	21,303	133	21,170	17,794	162	17,632
Balance as at 31 December	820,137	112,631	707,506	700,945	101,865	599,080

(c) Deferred acquisition costs

	2020 £000	2019 £000
Gross		
At the start of the year	(19,216)	(15,711)
Movement in provision	(3,562)	(3,624)
Currency translation differences	(74)	119
At the end of the year	(22,852)	(19,216)

	2020 £000	2019 £000
Reinsurance amount		
At the start of the year	2,058	1,946
Movement in provision	(240)	146
Currency translation differences	68	(34)
At the end of the year	1,886	2,058

Notes to the financial statements (continued)

23 Analysis of insurance claims provisions

(a) Loss development tables

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an accident year basis. Balances have been translated at exchange rates prevailing at 31 December 2020.

Gross loss development table

Accident year	All prior years	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Current estimate of gross ultimate claims												
At end of accident year	-	165,601	145,781	178,531	192,266	202,627	134,882	153,065	171,681	178,248	249,560	1,772,242
One year later	-	165,631	146,247	171,477	205,864	200,973	144,973	169,030	175,880	199,026	-	1,579,101
Two years later	-	173,015	144,579	165,011	226,231	185,727	148,313	164,250	169,365	-	-	1,376,491
Three years later	-	188,006	143,472	157,117	210,223	188,309	141,250	158,842	-	-	-	1,187,219
Four years later	-	182,642	145,246	160,590	206,940	189,679	142,358	-	-	-	-	1,027,455
Five years later	-	190,311	144,373	161,855	196,316	181,069	-	-	-	-	-	873,924
Six years later	-	197,978	138,580	153,437	197,619	-	-	-	-	-	-	687,614
Seven years later	-	189,444	133,653	154,944	-	-	-	-	-	-	-	478,041
Eight years later	-	189,464	132,544	-	-	-	-	-	-	-	-	322,008
Nine years later	-	181,837	-	-	-	-	-	-	-	-	-	181,837
Estimate of gross ultimate claims	-	181,837	132,544	154,944	197,619	181,069	142,358	158,842	169,365	199,026	249,560	1,767,164
Cumulative claims payments to date		(168,825)	(115,920)	(138,419)	(168,914)	(148,587)	(95,676)	(103,770)	(75,045)	(62,785)	(35,552)	(1,113,493)
Claims liability outstanding	145,163	13,012	16,624	16,525	28,705	32,482	46,682	55,072	94,320	136,241	214,008	798,834
ULAE												21,303
Gross claims outstanding												**820,137**

Net loss development table

Accident year	All prior years	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Current estimate of net ultimate claims												
At end of accident year	-	156,675	135,598	165,434	140,784	174,176	115,798	107,787	137,437	160,647	220,111	1,514,447
One year later	-	159,496	138,966	147,734	145,597	168,132	127,189	119,428	144,458	192,069	-	1,343,069
Two years later	-	168,950	137,792	146,587	164,035	151,146	132,429	117,011	139,491	-	-	1,157,441
Three years later	-	176,322	137,835	143,865	150,323	154,929	125,377	109,862	-	-	-	998,513
Four years later	-	172,878	140,168	148,356	150,082	154,884	119,419	-	-	-	-	885,787
Five years later	-	180,196	141,012	144,986	139,196	147,813	-	-	-	-	-	753,203
Six years later	-	184,389	135,549	137,349	139,023	-	-	-	-	-	-	596,310
Seven years later	-	178,516	131,885	137,078	-	-	-	-	-	-	-	447,479
Eight years later	-	171,367	129,671	-	-	-	-	-	-	-	-	301,038
Nine years later	-	163,051	-	-	-	-	-	-	-	-	-	163,051
Estimate of net ultimate claims	-	163,051	129,671	137,078	139,023	147,813	119,419	109,862	139,491	192,069	220,111	1,497,588
Cumulative claims payments to date		(152,136)	(114,532)	(123,825)	(111,067)	(116,801)	(77,471)	(61,664)	(73,411)	(61,317)	(29,663)	(921,887)
Claims liability outstanding	110,635	10,915	15,139	13,253	27,956	31,012	41,948	48,198	66,080	130,752	190,448	686,336
ULAE												21,170
Net claims outstanding												**707,506**

Notes to the financial statements (continued)

24 Creditors arising out of direct insurance operations

	2020	2019
	£000	£000
Amounts owed to intermediaries	2,730	2,810
	2,730	2,810

25 Other creditors including taxation and social security

	2020	2019
	£000	£000
Insurance premium taxes	7,800	6,644
Amounts owed to group undertakings	16,808	4,842
	24,608	11,486

26 Accruals and deferred income

	2020	2019
	£000	£000
Reinsurers' share of deferred acquisition costs	1,886	2,058
Accrued expenses	2,805	3,110
	4,691	5,168

27 Related party transactions

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

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

28 Commitments and Contingent Liabilities

In the normal course of business, letters of credit to the value of £54,921 (2019 £56,570) have been issued to fiscal authorities against insurance tax liabilities. These are secured against bank deposits.

On establishment of Travelers Insurance Designated Activity Company ("TIDAC"), a collateral arrangement was put in place between the Company and TIDAC to support the reinsurance agreement. The arrangement requires that the premium paid to the Company by TIDAC be held within an escrow account for a period of at least 2 years before it can be released. Claims paid relating to this premium can be funded from the collateral account. The funds held within the collateral account at the year end were £166.5m (2019 £110.5m). These funds are reported within other financial investments

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

Acting as a third party depositor under a trust deed executed in 2013, the Company has deposited £83.0m (2019 £130.5m) in fixed income securities with Lloyd's as security for the underwriting activities of its affiliate companies, Aprilgrange Limited and F&G UK Underwriters Limited. The fees attaching to this security earned by the Company were £1.3m (2019 £1.2m).

During the year the Company secured licences to write business on a surplus lines basis in the United States of America. As a condition of the grant of these licences the Company has deposited £4.0m into a trust fund.

Travelers has a pension scheme in the UK providing benefits based on final pensionable pay. This scheme was closed with effect from 1 April 2003. Travelers Management Limited currently bears responsibility for meeting any funding requirements of this scheme. In the event that Travelers Management Limited was not able to fulfil its obligations this responsibility would fall to the Company. The updated valuation for FRS 102 as at 31 December 2020 identified a deficit of £4.4m (2019 deficit of £3.1m).

29 Immediate and ultimate parent company

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

30 Subsequent events

On 15 January 2021 the Supreme Court passed judgement in the business interruption test case looking at coverage issues surrounding Covid-19. We welcome the Judgment which largely confirmed the outcome of the High Court's ruling. The Judgment represents the final outcome of the Industry Test Case, and there can be no further appeals.

Overall, the outcome was in line with the Company's expectations and was consistent with its reserving assumptions.

31 Affiliate company guarantee

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

Independent auditor's report

to the members of Travelers Insurance Company Limited

1. Our opinion is unmodified

We have audited the financial statements of Travelers Insurance Company Limited ("the Company") for the year ended 31 December 2020 which comprise the profit and loss account: technical account – general business, profit and loss account: non-technical account, statement of comprehensive income, statement of changes in equity, balance sheet, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

— give a true and fair view of the state of Company's affairs as at 31 December 2020 and of its loss for the year then ended;

— have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and FRS 103 *Insurance contracts;* and

— have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the Company before 1990. The period of total uninterrupted engagement is for the 30 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£2.1m (2019:£2.1m) 0.57% (2019: 0.68%) of gross written premium	
Key audit matter		**vs 2019**
Recurring risks	Valuation of claims outstanding – IBNR	▲

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the Valuation of claims outstanding – IBNR key audit matter (unchanged from 2019), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of claims outstanding – IBNR £534.4m gross, £450.2m net; (2019: £417.8m gross, £356.6m net) The risk has increased compared to the prior year. *Refer to* page 16 of the financial statements for the accounting policy and pages 31 - 32 of the financial statements for the financial disclosures.	**Subjective valuation** Claims outstanding represent the largest risk for the Company. Valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as expected loss ratios, estimates of the frequency and severity of claims by territory and line of business. Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts, for example asbestos related claims. The determination and application of the methodology and performance of the calculation are also complex and require the use of actuarial experts. A margin is added to the actuarial best estimate of claims outstanding to make allowance for specific risks identified in assessment of the best estimate. The appropriate margin to recognise is a subjective judgement and estimate taken by the Directors based on the perceived uncertainty and potential for volatility in the underlying claims. The appropriateness of the calculations rely on the integrity of the underlying data, which is sourced from a number of systems which are subject to regular reconciliations. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of claims outstanding has a degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements note 22 disclose the level of estimated by the Company.	Our procedures included: — **Control design and observation** Evaluation of the governance around the overall reserving process, including the scrutiny applied by the chief actuary. — **Assessing valuer's credentials** We assess the qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. — **Control effectiveness and operation** Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). — **Sector experience and Benchmarking** Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on historical experience, current trends and benchmarking to our own industry knowledge. — **Independent re-performance** Independent re-projection of the reserve balances for certain classes of business. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures. We have projected 68% of the estimated reserves and peer reviewed 32% of the Company's portfolio. — **Sensitivity analysis** In respect of the Company's exposures in relation to selected class of business, including UK Asbestos, we challenged the Company's estimate of losses by performing sensitivity analysis over key judgements and assumptions. — **Margin evaluation** Evaluation of the appropriateness of the margin to be applied to the actuarial best estimate. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate. **Our results** Based on the work performed, we conclude that the valuation of claims outstanding – IBNR to be within our acceptable range.

We continue to perform procedures over going concern, particularly in light of the impact of uncertainties due to COVID-19 pandemic. However, following updated risk assessment, we have not assessed going concern to be one of the most significant risks in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year. Our procedures and results on going concern is reported in Section 4 of this report.

KPMG

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

Materiality for the financial statements as a whole was set at £2.1m (2019: £2.1m), determined with reference to a benchmark of gross written premium, of which it represents 0.57% (2019: 0.68%).

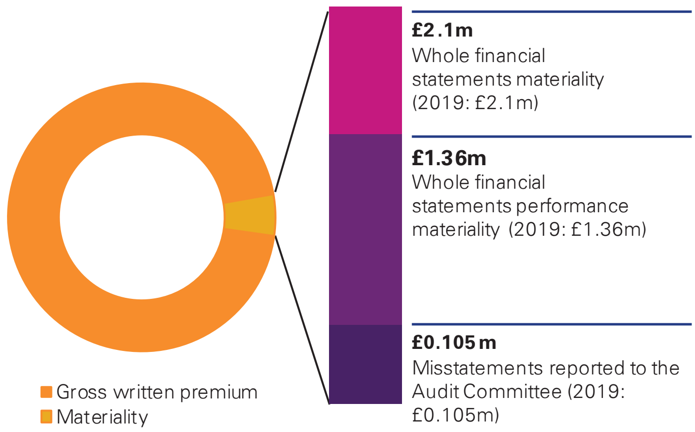
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £1.36m (2019: £1.36m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £105,000 (2019: £105,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.

Gross written premium
£370.9m (2019: £306.8m)

Materiality
£2.1m (2019: £2.1m)



4. Going concern

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

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

— adverse claims outstanding development, including potential impact caused by COVID-19 pandemic;

— a deterioration in claims experience, including potential impact caused by market wide catastrophe event(s) or impacts of the COVID-19 pandemic; and

— a deterioration in the valuation of the Company's investments arising from a significant change in the economic environment.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Company's current and projected cash and facilities.

Our procedures also included:

— assessing whether downside scenarios applied mutually consistent and severe assumptions in aggregate, using our assessment of the possible range of each key assumption and our knowledge of inter-dependencies; and

— we compared past forecasts to actual results to assess the directors' track record of forecasting accurately.

We considered whether the going concern disclosure in note x to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and

— we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors, the Audit Committee, internal audit, legal, risk and compliance and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board, Audit Committee and other relevant committee meeting minutes; and
- using analytical procedures to identify any unusual or unexpected relationships.

5. Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to fraud (continued)

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as valuation of claims outstanding – IBNR. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited judgement involved in the determination of all material revenue streams as the amounts are contractually derived and therefore the audit evidence supporting these balances is straightforward to obtain.

We also identified a fraud risk related to inappropriate valuation of claims outstanding – IBNR in response to possible pressures to meet regulatory and capital requirements.

Further detail in respect of the above fraud risk is set out in the key audit matter disclosures in section 2 of this report.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the Company-wide fraud risk management controls.

We also performed procedures including:

- identifying journal entries and other material adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted to accounts linked to an accounting estimate, cash accounts or suspense with unusual or non-routine transactions, those posted with unusual descriptions and those posted by in-frequent posters; and
- assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and discussed with the directors, legal and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

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

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

— we have not identified material misstatements in those reports;

— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

— adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

— the financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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

Umar Jamil (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
8 April 2021