Travelers Insurance Company Ltd
Report & Accounts 2008

TRAVELERS INSURANCE COMPANY LIMITED

Report and Accounts 2008

CONTENTS

THE COMPANY

DIRECTORS

Mark Boleat	*Non-Executive*
Sir John Carter	*Non-Executive Chairman*
Gary Dibb	*Non-Executive*
Tony Dilley	*Chief Operating Officer*
Mike Gent	*Chief Financial Officer*
Alistair Gunn	*General Counsel*
Peter Hayden	*General Manager – Ireland*
Martin Hudson	*Chief Executive Officer*

COMPANY SECRETARIES

Alistair Gunn
Graham Jones

REGISTERED OFFICE

Exchequer Court
33 St. Mary Axe
London EC3A 8AG
Registered in England No 1034343

MANAGEMENT AND OPERATIONS

61 – 63 London Road
Redhill
Surrey RH1 1NA
Telephone: 01737 787787
Fax: 01737 787172

BANKERS

National Westminster Bank Plc
Citibank NA

AUDITORS

KPMG Audit Plc

CHIEF EXECUTIVE'S STATEMENT AND OPERATIONAL REVIEW

BUSINESS RESULTS AND KPI'S

I am pleased to report a post tax operating profit of £122.9 million (2007: £64.5 million) on gross written premiums of £315.9 million (2007: £278.2 million).

Our core ongoing operations in the UK and Ireland reported a combined ratio of 80.5% (2007: 87.3%). Our discontinued operations contributed an operating profit of £18.4 million (2007 £0.1 million).

Overall, the company achieved a combined ratio of 77.7% (2007: 89.0%). The improvement in the combined ratio principally reflects the impact of the UK summer floods in 2007 which cost the company £18.5 million and an increase in the level of prior year releases to £80.9 million, up from £36.4 million in 2007. Adjusting both years for the floods and prior year releases gives a combined ratio comparison of 108.2% for 2008 against 96.8% for 2007. A number of large property claims in 2008 and the impact of premium rate erosion were the main factors for the deterioration in the underlying combined ratio. In the UK, gross written premiums were up 13.5% at £265.8 million (2007: £234.0 million). Despite the continued soft market our renewal retention held up well at 87%. Market opportunities in certain of our niches and new product launches allowed us to grow the top line during the year. Rates were off 2% for the year.

In Ireland, in underlying currency terms, premiums fell 17% from €65.1 million in 2007. Rates were down again year on year by 9% (11% in 2007) and the renewal retention rate dropped to 75% (2007: 77%) reflecting our determination not to write business below acceptable rates.

The investment return was substantially up on 2007 levels at £83.8 million (2007: £54.6 million). The decline in interest rates has had a positive impact on the market value of the portfolio with a £33 million rise in its value during the year, compared with a £3 million fall in 2007, and continued positive cash flows have offset the impact of a decline in yields. The investment portfolio is comprised of high quality corporate and government bonds. The average credit quality is AA+ (2007 AAA-) with no direct exposure to the sub prime market. Net assets increased by 33%, or £122 million, to £494 million. A £2.4 million dividend payment had only a minor impact on the capital position of the company which remains very strong.

The highlights of the year included:

- In the UK, we launched a number of new products targeted at Financial Institutions, Accountants and Medical Technology companies;
- We won the 2008 European Risk Management Award for Training Initiative of the Year and were short-listed for the Commercial Lines Insurer of the Year at the Insurance Times Awards and the Training Award and the Rehabilitation Award at the British Insurance Awards;
- In Ireland we launched new products for Property Owners, Directors & Officers and Golf Clubs;

CHIEF EXECUTIVE'S STATEMENT AND OPERATIONAL REVIEW

CONTINUED

- Also in Ireland, we became the exclusive provider of motor insurance to 123.ie, a distribution channel selling insurance products direct to consumers via an Internet site and state of-the-art call centre.

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

Whilst it now appears we are at the tail end of the soft market the economic downturn will bring fresh challenges in claims management and risk control. However, at the close of 2008 we find ourselves in a strong capital position with £122 million added to shareholder's funds since the beginning of the year.

PRINCIPAL RISKS AND UNCERTAINTIES

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

ENVIRONMENT

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

EMPLOYEES

At 31 December 2008 the company, through a fellow group subsidiary service company and on a shared basis with other group entities, employed 444 staff (2007: 425).

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

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

CHIEF EXECUTIVE'S STATEMENT AND OPERATIONAL REVIEW

CONTINUED

CONCLUSION

It was a good year for the company and we made a substantial contribution to group operating profits. I extend my sincere thanks and best wishes to all of my colleagues who worked so hard over the period in order to deliver these excellent results. We can look forward to the challenges and opportunities of 2009 with confidence.

Martin Hudson
Chief Executive
Travelers Insurance Company Limited

19 March 2009

DIRECTORS' REPORT

The directors present their annual report together with the financial statements for the 12 months ended 31st December 2008.

PRINCIPAL ACTIVITY

The principal activity of the company is the underwriting of general insurance business in the UK and through a branch in Ireland. The company is also running off the insurance liabilities of its discontinued branch operations in Holland, France, Germany, Australia and New Zealand.

BUSINESS REVIEW

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

DIRECTORS AND DIRECTORS' INTERESTS

All the directors set out on page 2 served throughout the year.

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

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

AUDIT COMMITTEE

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

POST BALANCE SHEET EVENT

Subsequent to the year end, on 5 March 2009, the company moved registered office to Exchequer Court, 33 St. Mary Axe, London EC3A 8AG, (previously 60 Gracechurch Street, London EC3V 0HR).

DIRECTORS' REPORT

CONTINUED

INDEMNITY INSURANCE

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

SUPPLIER PAYMENT POLICIES

All third party supplier invoices are settled on the company's behalf by Travelers Management Limited. The average payment terms are disclosed in that Company's accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

a) select suitable accounting policies and then apply them consistently;

b) make judgements and estimates that are reasonable and prudent;

c) state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

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

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

By order of the board
Alistair Gunn Secretary
19 March 2009

Exchequer Court
33 St. Mary Axe
London EC3A 8AG

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

for the twelve months ended 31 December 2008

	Note	2008 £000	2007 £000
Gross premiums written – continuing business		315,823	278,220
Gross premiums written – discontinued business		45	4
GROSS PREMIUMS WRITTEN	3	315,868	278,224
Outward reinsurance premiums		(50,391)	(46,398)
NET PREMIUMS WRITTEN		265,477	231,826
Change in the gross provision for unearned premiums	21	(972)	9,500
Change in the provision for unearned premiums, reinsurers' share	21	316	(9,952)
EARNED PREMIUMS, NET OF REINSURANCE		264,821	231,374
Allocated investment return transferred from the non-technical account		83,842	54,558
Claims paid:			
Gross amount		(167,169)	(289,061)
Reinsurers' share		21,837	141,085
		(145,332)	(147,976)
CHANGE IN THE PROVISION FOR CLAIMS:			
Gross amount	21	24,502	135,599
Reinsurers' share	21	(11,613)	(132,547)
		12,889	3,052
CLAIMS INCURRED, NET OF REINSURANCE		(132,443)	(144,924)
Net operating expenses	6	(73,214)	(61,209)
Change in claims equalisation provision	20, 21	(2,361)	(1,749)
BALANCE ON THE TECHNICAL ACCOUNT	2	140,645	78,050
Analysed between:			
Continuing business		122,220	77,960
Discontinued business		18,425	90
		140,645	78,050

The notes on pages 14 to 28 form part of these financial statements.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

for the twelve months ended 31 December 2008

	Note	2008 £000	2007 £000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		140,645	78,050
Investment income	5	63,229	58,557
Unrealised gains/(losses) on investments		32,653	(3,241)
Investment expenses and charges	7	(12,040)	(758)
		83,842	54,558
Allocated investment return transferred to the general business technical account		(83,842)	(54,558)
Other income/(charges)	8	1,012	(1,648)
OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	9	141,657	76,402
Tax on profit on ordinary activities	11	(18,713)	(11,866)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX FOR THE FINANCIAL YEAR	19	122,944	64,536

The notes on pages 14 to 28 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the twelve months ended 31 December 2008

	Note	2008 £000	2007 £000
PROFIT FOR THE FINANCIAL YEAR		122,944	64,536
Currency translation gains on foreign currency net investments	19	1,387	144
Taxation on currency translation gain	19	(395)	–
Total recognised gains relating to the year		123,936	64,680

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

The notes on pages 14 to 28 form part of these financial statements.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the twelve months ended 31 December 2008

	Note	2008 £000	2007 £000
PROFIT FOR THE FINANCIAL YEAR		122,944	64,536
Dividend	19	(2,380)	–
Other gains relating to the year	19	992	144
Net addition to shareholders' funds		121,556	64,680
Opening shareholders' funds		372,388	307,708
CLOSING SHAREHOLDERS' FUNDS		493,944	372,388

The notes on pages 14 to 28 form part of these financial statements.

BALANCE SHEET

as at 31 December 2008

	Note	2008 £000	2007 £000
ASSETS			
INVESTMENTS			
Other financial investments	12	1,230,710	1,156,178
		1,230,710	1,156,178
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	21	25,749	24,954
Claims outstanding	21	96,389	99,220
		122,138	124,174
DEBTORS			
Debtors arising out of insurance operations	13	50,257	34,261
Debtors arising out of reinsurance operations	14	3,229	3,430
Other debtors	15	1,532	578
		55,018	38,269
DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Loan to group undertaking	16	4,800	4,800
OTHER ASSETS			
Deferred tax asset	17	172	164
Cash at bank and in hand		53,353	20,187
		53,525	20,351
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		26,449	26,273
Deferred acquisition costs	21	17,619	14,824
		44,068	41,097
TOTAL ASSETS		1,510,259	1,384,869

The notes on pages 14 to 28 form part of these financial statements.

BALANCE SHEET
as at 31 December 2008
CONTINUED

	Note	2008 £000	2007 £000
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	18	203,822	203,822
Share premium account	19	699	699
Profit and loss account	19	289,423	167,867
Shareholders' funds attributable to equity interests		493,944	372,388
TECHNICAL PROVISIONS			
Provision for unearned premiums	21	156,350	151,078
Claims outstanding	21	789,764	770,657
Claims equalisation provision	20,21	12,296	9,935
		958,410	931,670
CREDITORS			
Creditors arising out of insurance operations		3,302	3,386
Creditors arising out of reinsurance operations		35,682	32,047
Other creditors including taxation and social security	22	14,355	20,743
		53,339	56,176
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Loan from parent undertaking	23	–	20,920
Total Creditors		53,339	77,096
ACCRUALS AND DEFERRED INCOME	24	4,566	3,715
TOTAL LIABILITIES		1,510,259	1,384,869

These financial statements were approved by the board of directors on 19 March 2009 and were signed on its behalf by:

Martin Hudson
Chief Executive

19 March 2009

The notes on pages 14 to 28 form part of these financial statements.

NOTES

(Forming part of the financial statements)

1(a) BASIS OF PREPARATION

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

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

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

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

The company's business activities, together with some commentary on the current year financial performance and balance sheet position are set out in the Chief Executive's statement on page 3. The company has considerable financial resources together with very prudent investment guidelines, a high quality of assets, sound underwriting procedures, controls and risk mitigating processes (including, but not limited to, reinsurance) and the support of a financially strong parent company.

As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors are confident that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

1(b) ACCOUNTING POLICIES

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

Basis of accounting for underwriting activities

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

Premiums

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

Premiums written include estimates for "pipeline" premiums and adjustments to premiums written in prior accounting periods. Outward reinsurance premiums are

NOTES
CONTINUED

accounted for in the same accounting period as the premiums for the related direct insurance premiums.

Unearned premiums

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

Acquisition costs

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

Claims incurred

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

Claims outstanding

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

Claims outstanding estimation techniques

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

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

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

NOTES

CONTINUED

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

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

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

Large claims are capped and reserved for separately.

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

Establishing an appropriate level of claims provision is inherently uncertain. The degree of uncertainty will vary by product and line of business according to the characteristics of the insured risk. The estimation of the gross provisions for asbestosis, environmental pollution and industrial disease claims is subject to a range of uncertainties that are greater than those of other classes. These losses were wholly reinsured with a fellow group company and have no impact on the company's net results. As at 31 December 2007 these loss reserves were transferred to a fellow group company by way of a Part VII transfer and hence this element of uncertainty has now been eliminated.

The level of uncertainty is also influenced by a number of factors such as claims cost inflation, judicial trends and legislative changes. As a consequence of this uncertainty the eventual cost of settling outstanding claims can vary substantially from the initial estimates.

Equalisation provisions

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

Unexpired risks

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums provision in relation to such policies after deduction of any acquisition costs deferred. Provision for

NOTES

CONTINUED

unexpired risks is calculated after taking into account relevant investment income. Unexpired risk surpluses and deficits are aggregated where the business classes are managed together.

Investment income, expenses and charges

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

Unrealised gains and losses on investments

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

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

Allocation of investment return

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

Investments

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

Foreign currencies

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

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

Taxation

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

2. CONTINUING AND DISCONTINUED OPERATIONS

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

NOTES

CONTINUED

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

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

	2008		2007	
	Continuing operations £000	Discontinued operations £000	Continuing operations £000	Discontinued operations £000
Net premiums written	265,427	50	231,631	195
Net premiums earned	264,644	177	231,181	193
Allocated investment return	73,079	10,763	50,377	4,181
	337,723	10,940	281,558	4,374
Claims paid – Part VII transfer	—	—	—	(112,212)
Claims paid – other	(138,353)	(28,816)	(129,604)	(47,245)
Claims paid – gross amount	(138,353)	(28,816)	(129,604)	(159,457)
Claims paid – Part VII transfer	—	—	—	112,212
Claims paid – other	15,258	6,579	13,950	14,923
Claims paid – reinsurers' amount	15,258	6,579	13,950	127,135
Change in provisions for claims – gross amount	(10,183)	34,685	(29,072)	164,671
Change in provisions for claims – reinsurers' amount	(8,645)	(2,968)	2,803	(135,350)
Claims incurred, net of reinsurance	(141,923)	9,480	(141,923)	(3,001)
Net operating expenses	(71,219)	(1,995)	(59,926)	(1,283)
Claims equalisation reserve	(2,361)	—	(1,749)	—
Balance on the technical account	122,220	18,425	77,960	90
Investment income	56,624	6,605	52,541	6,016
Unrealised gains/(losses) on investments	28,469	4,184	(1,547)	(1,694)
Investment expenses and charges	(12,014)	(26)	(617)	(141)
	73,079	10,763	50,377	4,181
Allocated investment return transferred to the general business technical account	(73,079)	(10,763)	(50,377)	(4,181)
Other income/(charges)	1,012	—	(1,648)	—
Operating profit on ordinary activities before tax	123,232	18,425	76,312	90

NOTES

CONTINUED

3. SEGMENTAL INFORMATION

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

	2008 Gross premiums written £000	2008 Profit before tax £000	2008 Net assets £000	2007 Gross premiums written £000	2007 Profit before tax £000	2007 Net assets £000
By geographical segment						
United Kingdom	265,762	108,531	461,063	234,041	58,366	309,224
Republic of Ireland	50,082	12,368	15,054	44,180	14,727	39,971
Overseas branches in run-off	24	20,758	17,827	3	3,309	23,193
Total	315,868	141,657	493,944	278,224	76,402	372,388

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

3. (b) Analysis of gross direct written premiums

	2008 £000	2007 £000
Resulting from contracts concluded by the company:		
In the EU member state of its head office	265,762	234,041
In other EU member states	50,087	44,183
Outside EU member states	19	—
	315,868	278,224

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

	2008 Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Motor	34,691	35,661	(29,715)	(8,941)	3,269
Fire and other damage to property	94,980	94,787	(25,909)	(21,060)	(20,639)
Third party liability	181,248	179,476	(86,449)	(43,709)	(21,614)
Credit and Suretyship	204	209	(301)	(7)	154
Miscellaneous	4,745	4,763	(668)	(1,165)	706
	315,868	314,896	(143,042)	(74,882)	(38,124)
Reinsurance	—	—	375	—	(59)
	315,868	314,896	(142,667)	(74,882)	(38,183)

NOTES

CONTINUED

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

Commission payable in respect of direct insurance amounted to £30,181,000 (2007: £22,577,000).

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

4. PRIOR YEARS' CLAIMS PROVISIONS

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

	2008 £000	2007 £000
Motor	6,769	377
Fire and other damage to property	31,977	7,641
General liability	39,517	28,343
Miscellaneous	2,332	21
Reinsurance	316	(5)
	80,911	36,377

5. INVESTMENT INCOME

	2008 £000	2007 £000
Income from investments	61,661	58,549
Gains on the realisation of investments	1,291	8
Interest on loan to fellow group undertaking	277	—
	63,229	58,557

NOTES

CONTINUED

6. NET OPERATING EXPENSES

	2008 £000	2007 £000
Acquisition costs	38,212	29,532
Change in gross deferred acquisition costs	(2,125)	199
	36,087	29,731
Administrative expenses	38,795	33,433
Gross operating expenses	74,882	63,164
Reinsurance commissions and profit participation	(1,842)	(1,523)
Change in deferred reinsurance commission	174	(432)
	73,214	61,209

7. INVESTMENT EXPENSES AND CHARGES

	2008 £000	2007 £000
Investment management expenses	961	683
Losses on the realisation of investments	4,679	75
Impairment charge	6,400	—
	12,040	758

8. OTHER INCOME/(CHARGES)

	2008 £000	2007 £000
Foreign exchange gain/(loss)	1,866	(207)
Loan interest payable	(854)	(1,441)
	1,012	(1,648)

9. OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2008 £000	2007 £000
Operating profit on ordinary activities before tax is stated		
after crediting		
Income from listed investments	60,580	57,287
after charging		
Auditors' remuneration:		
Audit of these financial statements	150	142
Other services pursuant to legislation	53	50
Other services relating to taxation	52	39

NOTES

CONTINUED

10. REMUNERATION OF DIRECTORS

	2008 £000	2007 £000
Directors' fees	122	92
Directors' emoluments	865	732
Company contributions to money purchase schemes	41	36

The emoluments of the highest paid director for the year were £259,325 (2007: £232,922). The highest paid director was a member of a defined benefit scheme. This scheme was frozen on 1 April 2003. The amount of his accrued pension at the end of the year was £77,086.

	Number of directors 2008	2007
Retirement benefits are accruing to the following number of directors:		
Money purchase schemes	5	5
Defined benefit schemes	0	0
The number of directors who exercised share options was	1	5
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	0	0

11. TAXATION

(a) Analysis of charge in the year

	2008 £000	2007 £000
United Kingdom Corporation Tax		
United Kingdom Corporation Tax at 28.5% (2007: 30%)	19,151	13,862
Adjustment in respect of prior periods	(461)	(9,379)
	18,690	4,483
Double taxation relief	(2,081)	(1,400)
	16,609	3,083
Foreign tax		
Current tax on income for the period	2,112	1,400
Total current tax	18,721	4,483
Deferred tax (credit)/charge (note 17)	(8)	7,383
Tax on profit on ordinary activities	18,713	11,866

NOTES

CONTINUED

11. (b) Factors affecting the current tax charge

The current tax charge for the year is lower than the standard rate of corporation tax in the UK at 28.5% (2007: 30%). The differences are explained below:

	2008 £000	2007 £000
Profit on ordinary activities before tax	141,657	76,402
Current tax at 28.5% (see note below) (2007: 30%)	40,372	22,921
Expenses previously not deductible now deductible for tax purposes	8	(1,497)
Free group relief	(21,229)	—
S107 disclaimer reversing	—	(7,562)
United Kingdom Corporation Tax	19,151	13,862

As the standard rate of corporation tax changed to 28% on 1 April 2008 a composite rate of 28.5% has been used for calendar year.

12. OTHER FINANCIAL INVESTMENTS

	Market Value 2008 £000	Market Value 2007 £000	Cost 2008 £000	Cost 2007 £000
Debt securities and other fixed income securities	1,230,710	1,156,070	1,215,870	1,193,439
Deposits with credit institutions	—	108	—	108
	1,230,710	1,156,178	1,215,870	1,193,547
Included in debt securities and other fixed income securities:				
Listed on the London Stock Exchange	1,204,960	1,121,548	1,190,740	1,156,219
Listed on other investment exchanges	25,750	34,522	25,130	37,220
	1,230,710	1,156,070	1,215,870	1,193,439

13. DEBTORS ARISING OUT OF INSURANCE OPERATIONS

	2008 £000	2007 £000
Amounts owed by intermediaries	35,285	26,792
Amounts owed by policyholders	14,972	7,469
	50,257	34,261

NOTES

CONTINUED

14. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2008	2007
	£000	£000
Amounts owed by reinsurers	3,229	3,430
	3,229	3,430

15. OTHER DEBTORS

	2008	2007
	£000	£000
Amounts owed by group undertakings	19	70
Corporation tax recoverable	645	191
Other debtors	868	317
	1,532	578

16. DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2008	2007
	£000	£000
Loan to group undertaking	4,800	4,800

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

17. DEFERRED TAX ASSET

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

	2008		2007	
	Provided	Unprovided	Provided	Unprovided
	£000	£000	£000	£000
Expense provision	172	—	164	—
	172	—	164	—

NOTES

CONTINUED

17. (b) Movement in provided deferred tax

	2008 £000	2007 £000
Deferred tax asset brought forward	164	7,547
Loss reserves utilised	—	(5,895)
Expense provision	8	(16)
Loan interest accrual	—	(1,472)
Deferred tax asset carried forward	172	164

18. CALLED UP SHARE CAPITAL

	2008 £000	2007 £000
Authorised		
300,000,000 (2007: 300,000,000) ordinary shares of £1 each	300,000	300,000
Allotted, called up and fully paid		
203,822,115 (2007: 203,822,115) ordinary shares of £1 each	203,822	203,822

19. RESERVES

	Share premium account £000	Profit and loss account £000	Total £000
At beginning of year	699	167,867	168,566
Profit for the year	—	122,944	122,944
Dividend	—	(2,380)	(2,380)
Currency translation differences on foreign currency net investments	—	992	992
At end of year	699	289,423	290,122

20. EQUALISATION PROVISIONS

Equalisation provisions are established in accordance with the requirements of chapter 1.4 of the Prudential Source Book of Insurers. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of decreasing shareholders' funds by £12,296,000 (2007: £9,935,000). The movement in the equalisation provisions during the year resulted in a decrease in the general business technical account result and a reduction in the profit before taxation of £2,361,000 (2007: £1,749,000).

NOTES
CONTINUED

21. TECHNICAL PROVISIONS AND DEFERRED ACQUISITION COSTS

	Provision for unearned premiums £000	Claims outstanding £000	Equalisation provision £000	Total £000
Gross amount				
At beginning of the year	151,078	770,657	9,935	931,670
Currency translation differences	4,300	43,609	—	47,909
Movement in the provision	972	(24,502)	2,361	(21,169)
At end of the year	156,350	789,764	12,296	958,410
Reinsurance amount				
At beginning of the year	(24,954)	(99,220)	–	(124,174)
Currency translation differences	(479)	(8,782)	—	(9,261)
Movement in the provision	(316)	11,613	—	11,297
At end of the year	(25,749)	(96,389)	—	(122,138)
Net technical provisions				
At end of the year	130,601	693,375	12,296	836,272
At beginning of the year	126,124	671,437	9,935	807,496

Technical provisions and deferred acquisition costs

	2008 £000	2008 £000	2007 £000	2007 £000
Net technical provisions at end of year		836,272		807,496
Deferred acquisition costs				
– gross	(17,619)		(14,824)	
– reinsurance commissions	745		545	
		(16,874)		(14,279)
Net insurance funds		819,398		793,217

22. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2008 £000	2007 £000
Insurance premium taxes	3,219	2,868
Amounts owed to group undertakings	4,822	10,925
Tax payable	5,822	6,909
Other creditors	492	41
	14,355	20,743

NOTES
CONTINUED

23. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2008 £000	2007 £000
Loan from parent undertaking	—	20,920

The loan related to a subordinated loan payable to The Travelers Companies, Inc.. The loan could be utilised for prudential solvency requirements and as such the consent of the United Kingdom Financial Services Authority was required prior to any repayment, except where the lender required full or part repayment with not less than 5 years' notice. The rate of interest applicable to the loan was twelve month British pounds LIBOR. The loan was repaid in full September 2008 following the consent of the Financial Services Authority.

24. ACCRUALS AND DEFERRED INCOME

	2008 £000	2007 £000
Reinsurers' share of deferred acquisition costs	745	545
Accrued expenses	3,821	3,170
	4,566	3,715

25. PENSIONS

The company is one of a number of group companies bearing the costs of a pension scheme providing benefits based on final pensionable pay. This scheme was frozen with effect from 1 April 2003, whereby no further benefits were accrued by the members. Because the company is unable to identify its share, as permitted by FRS 17 'Retirement benefits', the scheme will be accounted for by the company as if the scheme was a defined contribution scheme. The latest full actuarial valuation was carried out as at 1 April 2005, updated for FRS 17 purposes to 31 December 2008, by a qualified independent actuary.

The full actuarial valuation at 1 April 2005 identified a deficiency of scheme assets of £702,000. Subsequent to 1 April 2005 further contributions of £880,000 have been paid into the scheme.

The updated valuation for FRS 17 purposes to 31 December 2008 identified a surplus of scheme assets of £365,000 (2007: surplus of £4,221,000).

The pension charge for the group defined benefit scheme for the year was £nil (2007: £nil).

NOTES

CONTINUED

26. RELATED PARTY TRANSACTIONS

The company has a management agreement with Travelers Management Limited, a fellow group undertaking, which employs all the personnel and provides a full payroll and expense processing service. All pension disclosures relating to these personnel are available in the accounts of Travelers Management Limited. The total expenses incurred by Travelers Management Limited and recharged to the company during the year were £49,779,371 (2007: £41,260,151).

27. CONTINGENT LIABILITIES

In the normal course of business letters of credit to the value of £161,364 have been issued to fiscal authorities against insurance tax liabilities (2007: £3,058,842 issued to policy holders against insurance liabilities). £161,364 (2007: nil) of these letters are secured against bank deposits.

The company has also guaranteed lease commitments of a fellow subsidiary company relating to the two main operating premises in the United Kingdom of £1,234,800 and £1,663,514 per annum respectively. These leases expire in 2016 and 2018 respectively.

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

28. POST BALANCE SHEET EVENT

Subsequent to the year end, on 5 March 2009, the company moved registered office to Exchequer Court, 33 St. Mary Axe, London EC3A 8AG (previously 60 Gracechurch Street, London EC3V 0HR).

29. IMMEDIATE AND ULTIMATE PARENT COMPANY

The immediate and ultimate parent undertaking of the company is The Travelers Companies, Inc., a company registered in the United States. Copies of The Travelers Companies, Inc. accounts can be obtained from this company's registered office, Exchequer Court, 33 St. Mary Axe, London EC3A 8AG.

30. PARENT COMPANY GUARANTEE

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

31. SUBSIDIARY COMPANY

Under s228A of the Companies Act 1985, 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 appropriate for Travelers Insurance Company Ltd to take advantage of the exemption to prepare consolidated accounts and therefore these financial statements are for the company only. Travelers Professional Risks Limited, a wholly owned subsidiary of Travelers Insurance Company Limited, has therefore not been consolidated in these accounts. The company had net assets at 31 December 2008 of £170,540 (2007 £134,790).

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TRAVELERS INSURANCE COMPANY LIMITED

TO THE MEMBERS OF TRAVELERS INSURANCE COMPANY LIMITED

We have audited the financial statements of Travelers Insurance Company Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statements of Directors' Responsibilities on page 7, the company's directors are responsible for the preparation of the financial statements (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is not consistent with the financial statements.

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

We read the Director's Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

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

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

REPORT OF THE INDEPENDENT AUDITORS KPMG Audit Plc

CONTINUED

EQUALISATION PROVISION

Our evaluation of the presentation of information in the financial statements has regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2008, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in notes 20 and 21 respectively.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with the UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

24 March 2009

Printed by **Corporate Ink**

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

travelers.co.uk

Authorised and regulated by the Financial Services Authority

TRV0427 03/09