Travelers Insurance Company Limited
Report and Accounts 2010

TRAVELERS INSURANCE COMPANY LIMITED

Report and Accounts 2010

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THE COMPANY

DIRECTORS

Mark Boleat	*Non-Executive – resigned on 23 December 2010*
Sir John Carter	*Non-Executive*
Gary Dibb	*Non-Executive*
Tony Dilley	*Chief Administrative Officer – resigned on 7 June 2010*
Mike Gent	*Chief Financial Officer*
Alistair Gunn	*General Counsel – resigned on 23 December 2010*
Peter Hayden	*General Manager – Ireland*
Keith Purvis	*Chief Executive*

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

The company achieved a post tax profit of £30.3 million (2009: £19.9 million) on gross written premiums of £320.5 million (2009: £336.6 million) and a combined ratio of 102.2% (2009: 111.8%). The improvement in the results is largely driven by Ireland where the 2009 result was hit by underwriting losses on a portfolio of professional indemnity business. This is partly offset by a reduction in investment returns.

Our core ongoing operations in the UK and Ireland reported a combined ratio of 103.6% (2009: 113.0%). Our discontinued operations contributed an operating profit of £6.5 million (2009 £10.0 million).

In the UK, gross written premiums were 6% lower at £232.8 million (2009: £247.8 million). The market remains competitive. Rates were up 2% (2009 up 3%), renewal retention was stable at 82% (2009 83%) and new business levels were lower, reflecting our disciplined underwriting approach.

In Ireland, in underlying currency terms, premiums were marginally behind 2009. An overall rate increase of 12% was achieved, mainly concentrated in personal lines. However, from October our relationship with 123.ie ceased following its acquisition by RSA, and, as a consequence, our premium volumes in Ireland are likely to fall in 2011.

The investment return was down on 2009 levels at £46.1 million (2009: £65.8 million) due to a reduction in investment yields and adverse market value movements on the portfolio as interest rate expectations increased. The investment portfolio is comprised of high quality corporate and government bonds. The average credit quality is AA+ (2009 AA+). Net assets increased to £534 million from £501 million at the end of 2009.

The highlights of the year included:

- In the UK Travelers recruited a dedicated team in Scotland and opened an office in Glasgow to support growth in the region.
- The company continued to expand its product set with the introduction of Public Company D&O and the enhancement of its technology product to provide greater worldwide coverage for technology companies.
- In addition, the claims operation introduced its *Secure, Respected & Cared For* approach, which has improved the Customer experience when a claim is made.
- Travelers also embarked on an ambitious research effort to assess key broker and policyholder satisfaction to identify best practices for future growth.
- In Ireland, Travelers has continued to develop its motor insurance products and delivery systems as a platform for future growth. Travelers supported its long term development in this market by appointing a number of senior roles, including a Chief Underwriting Officer and Chief Actuary.

Dividends paid in the year were nil (2009 £12.3 million).

CHIEF EXECUTIVE'S STATEMENT AND OPERATIONAL REVIEW

CONTINUED

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, catastrophe losses, principally UK and Ireland wind storms and flooding events, and the sufficiency and financial security of the reinsurance purchased.

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

The average number of staff employed in the year, through a fellow group subsidiary service company and on a shared basis with other group entities, was 503 (2009: 468).

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.

CONCLUSION

It was another profitable year for the company in a challenging market environment, and we made a solid 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 results. We can look forward to the challenges and opportunities of 2011 with confidence.

Keith Purvis
Chief Executive
Travelers Insurance Company Limited

25 March 2011

DIRECTORS' REPORT

The directors present their annual report together with the financial statements for the 12 months ended 31st December 2010.

PRINCIPAL ACTIVITY

The principal activity of the company is the underwriting of general insurance business in the UK and 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 4 and the results for the financial year are set out on pages 8 and 9.

DIRECTORS AND DIRECTORS' INTERESTS

All the directors set out on page 2 served throughout the year, with the exception of Tony Dilley who resigned on 7 June 2010, and Mark Boleat and Alistair Gunn who both resigned on 23 December 2010.

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 Act 2006 Section 183 (Declaration of interest in existing transaction or arrangement), the directors of the company are exempt from disclosing any interests in the shares of the ultimate holding company.

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

AUDIT COMMITTEE

The Board has an established Audit Committee (the "Committee"). The Committee meets at least three times a year. The Committee comprises the non-executive directors. Mr Boleat was Chairman of the 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 also considers the appointment and fees, both audit and non-audit, of the external auditors. The Committee also reviews the annual plans of both the external and internal auditors and reviews reports received from both in respect of their findings. The Chief Financial Officer, Head of Internal Audit and the Company Secretary usually attend the Committee meetings. At least once a year the Committee meets, both on its own and with the external auditors, without any executive management present.

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.

POLITICAL AND CHARITABLE CONTRIBUTIONS

Political contributions were nil during 2010 (2009: nil). Donations to UK charities were nil during 2010 (2009: nil).

REAPPOINTMENT OF AUDITORS

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

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 and applicable law (UK Generally Accepted Accounting Practice).

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:

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 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 the financial statements comply with the Companies Act 2006. 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.

DIRECTORS' REPORT
CONTINUED

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
25 March 2011

Exchequer Court
33 St. Mary Axe
London EC3A 8AG

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

for the twelve months ended 31 December 2010

	Note	2010 £000	2009 £000
Gross premiums written – continuing business		320,539	336,575
Gross premiums written – discontinued business		9	10
GROSS PREMIUMS WRITTEN	3	320,548	336,585
Outward reinsurance premiums		(40,997)	(61,484)
NET PREMIUMS WRITTEN		279,551	275,101
Change in the gross provision for unearned premiums	21	6,469	(15,303)
Change in the provision for unearned premiums, reinsurers' share	21	(4,781)	4,354
EARNED PREMIUMS, NET OF REINSURANCE		281,239	264,152
Allocated investment return transferred from the non-technical account		46,073	65,764
Claims paid:			
Gross amount		(230,105)	(198,765)
Reinsurers' share		25,818	17,866
		(204,287)	(180,899)
CHANGE IN THE PROVISION FOR CLAIMS:			
Gross amount	21	2,793	18,885
Reinsurers' share	21	6,159	(50,094)
		8,952	(31,209)
CLAIMS INCURRED, NET OF REINSURANCE		(195,335)	(212,108)
Net operating expenses	6	(92,083)	(83,151)
Change in claims equalisation provision	20, 21	(761)	(2,177)
BALANCE ON THE TECHNICAL ACCOUNT	2	39,133	32,480
Analysed between:			
Continuing business		32,676	22,457
Discontinued business		6,457	10,023
		39,133	32,480

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 2010

	Note	2010 £000	2009 £000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		39,133	32,480
Investment income	5	56,615	61,173
Unrealised (losses)/gains on investments		(7,344)	12,016
Investment expenses and charges	7	(3,198)	(7,425)
		46,073	65,764
Allocated investment return transferred to the general business technical account		(46,073)	(65,764)
Other income/(charges)	8	2,797	(1,210)
OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	9	41,930	31,270
Tax on profit on ordinary activities	11	(11,612)	(11,406)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX FOR THE FINANCIAL YEAR	19	30,318	19,864

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 2010

	Note	2010 £000	2009 £000
PROFIT FOR THE FINANCIAL YEAR		30,318	19,864
Currency translation gains/(losses) on foreign currency net investments	19	3,662	(862)
Taxation (charge)/credit on currency translation gain	19	(1,025)	241
Total recognised gains relating to the year		32,955	19,243

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 2010

	Note	2010 £000	2009 £000
PROFIT FOR THE FINANCIAL YEAR		30,318	19,864
Dividend	19	—	(12,300)
Other gains/(losses) relating to the year	19	2,637	(621)
Net addition to shareholders' funds		32,955	6,943
Opening shareholders' funds		500,887	493,944
CLOSING SHAREHOLDERS' FUNDS		533,842	500,887

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

BALANCE SHEET

as at 31 December 2010

	Note	2010 £000	2009 £000
ASSETS			
INVESTMENTS			
Investments in group undertakings	29	—	—
Other financial investments	12	1,361,740	1,328,271
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	21	25,063	29,927
Claims outstanding	21	54,174	48,517
		79,237	78,444
DEBTORS			
Debtors arising out of insurance operations	13	34,221	48,984
Debtors arising out of reinsurance operations	14	970	4,532
Other debtors	15	2,366	4,398
		37,557	57,914
DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Loan to group undertaking	16	4,800	4,800
OTHER ASSETS			
Deferred tax asset	17	165	173
Cash at bank and in hand		11,934	14,027
		12,099	14,200
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		21,697	25,453
Deferred acquisition costs	21	19,983	20,520
		41,680	45,973
TOTAL ASSETS		1,537,113	1,529,602

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

BALANCE SHEET
as at 31 December 2010
CONTINUED

	Note	2010 £000	2009 £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	329,321	296,366
Shareholders' funds attributable to equity interests		533,842	500,887
TECHNICAL PROVISIONS			
Provision for unearned premiums	21	163,920	171,858
Claims outstanding	21	769,020	780,080
Claims equalisation provision	20, 21	15,234	14,473
		948,174	966,411
CREDITORS			
Creditors arising out of insurance operations		4,877	3,091
Creditors arising out of reinsurance operations		26,517	41,531
Other creditors including taxation and social security	22	17,361	11,950
		48,755	56,572
ACCRUALS AND DEFERRED INCOME	23	6,342	5,732
TOTAL LIABILITIES		1,537,113	1,529,602

These financial statements were approved by the board of directors on 25 March 2011 and were signed on its behalf by:

Keith Purvis
Chief Executive

25 March 2011

Travelers Insurance Company Limited
Registered in England No 1034343

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 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 financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules as modified to include the revaluation of investments and comply with the revised Statement of Recommended Practice (SORP) 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.

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

Unearned premiums

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

Acquisition costs

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

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

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

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

All projections are carried out separately for each country, product 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 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 to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

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.

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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 FRS 19.

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.

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

	2010		2009	
	Continuing operations £000	Discon-tinued operations £000	Continuing operations £000	Discon-tinued operations £000
Net premiums written	279,542	9	275,091	10
Net premiums earned	281,229	10	264,142	10
Allocated investment return	43,544	2,529	58,965	6,799
	324,773	2,539	323,107	6,809
Claims paid – gross amount	(214,134)	(15,971)	(183,654)	(15,111)
Claims paid – reinsurers' amount	22,372	3,446	14,376	3,490
Change in provisions for claims – gross amount	(24,070)	26,863	(2,405)	21,290
Change in provisions for claims – reinsurers' amount	13,977	(7,818)	(46,482)	(3,612)
Claims incurred, net of reinsurance	(201,855)	6,520	(218,165)	6,057
Net operating expenses	(89,481)	(2,602)	(80,308)	(2,843)
Claims equalisation reserve	(761)	—	(2,177)	—
Balance on the technical account	32,676	6,457	22,457	10,023
Investment income	53,573	3,042	56,696	4,477
Unrealised gains on investments	(6,868)	(476)	9,516	2,500
Investment expenses and charges	(3,161)	(37)	(7,247)	(178)
	43,544	2,529	58,965	6,799
Allocated investment return transferred to the general business technical account	(43,544)	(2,529)	(58,965)	(6,799)
Other income/(charges)	2,797	—	(1,210)	—
Operating profit on ordinary activities before tax	35,473	6,457	21,247	10,023

NOTES
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3. SEGMENTAL INFORMATION

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

	2010			2009		
	Gross premiums written £000	Profit before tax £000	Net assets £000	Gross premiums written £000	Profit before tax £000	Net assets £000
By geographical segment						
United Kingdom	232,759	49,432	500,462	247,789	83,840	466,655
Republic of Ireland	87,789	(11,053)	5,609	88,796	(63,529)	8,984
Overseas branches in run-off	—	3,551	27,771	—	10,959	25,248
Total	320,548	41,930	533,842	336,585	31,270	500,887

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

(b) Analysis of gross direct written premiums

	2010 £000	2009 £000
Resulting from contracts concluded by the company:		
In the EU member state of its head office	232,759	247,789
In other EU member states	87,789	88,796
	320,548	336,585

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

	2010				
	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Motor	71,363	71,165	(61,247)	(23,155)	(494)
Fire and other damage to property	95,948	102,299	(58,378)	(30,793)	(10,758)
Third party liability	146,227	147,847	(100,363)	(38,864)	(4,346)
Credit and Suretyship	517	448	(32)	(83)	(416)
Miscellaneous	6,493	5,258	(7,292)	(1,450)	4,475
	320,548	327,017	(227,312)	(94,345)	(11,539)
Reinsurance	—	—	—	—	—
	320,548	327,017	(227,312)	(94,345)	(11,539)

NOTES
CONTINUED

	Gross premiums written £000	Gross premiums earned £000	2009 Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
Direct insurance:					
Motor	60,268	43,566	(19,695)	(13,396)	(17,383)
Fire and other damage to property	104,444	95,999	(44,046)	(25,232)	(25,487)
Third party liability	166,773	176,900	(114,582)	(44,718)	(44,991)
Credit and Suretyship	617	652	(181)	(78)	(534)
Miscellaneous	4,483	4,165	(1,376)	(1,449)	759
	336,585	321,282	(179,880)	(84,873)	(87,636)
Reinsurance	—	—	—	—	—
	336,585	321,282	(179,880)	(84,873)	(87,636)

Commission payable in respect of direct insurance amounted to £32,704,000 (2009: £32,833,000).

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 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:

	2010 £000	2009 £000
Motor	(27)	6,287
Fire and other damage to property	12,257	11,865
General liability	14,464	8,096
Miscellaneous	(187)	693
	26,507	26,941

5. INVESTMENT INCOME

	2010 £000	2009 £000
Income from investments	51,818	59,060
Gains on the realisation of investments	4,677	2,034
Interest on loan to fellow group undertaking	120	79
	56,615	61,173

NOTES

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6. NET OPERATING EXPENSES

	2010 £000	2009 £000
Acquisition costs	41,092	41,019
Change in gross deferred acquisition costs	299	(2,853)
	41,391	38,166
Administrative expenses	52,954	46,707
Gross operating expenses	94,345	84,873
Reinsurance commissions and profit participation	(2,377)	(2,088)
Change in deferred reinsurance commission	115	366
	92,083	83,151

7. INVESTMENT EXPENSES AND CHARGES

	2010 £000	2009 £000
Investment management expenses	997	1,079
Losses on the realisation of investments	2,201	6,346
	3,198	7,425

8. OTHER INCOME/(CHARGES)

	2010 £000	2009 £000
Foreign exchange gain/(loss)	899	(1,210)
Other income	1,898	—
	2,797	(1,210)

9. OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2010 £000	2009 £000
Operating profit on ordinary activities before tax is stated		
after crediting		
Income from listed investments	51,704	58,866
after charging		
Auditors' remuneration:		
Audit of these financial statements	167	153
Other services pursuant to legislation	55	54
Other services relating to taxation	56	17

10. REMUNERATION OF DIRECTORS

	2010 £000	2009 £000
Directors' fees	125	122
Directors' emoluments	985	1,018
Directors' compensation for loss of office	120	465
Company contributions to money purchase schemes	66	44

NOTES

CONTINUED

The emoluments of the highest paid director for the year were £375,773 (2009: £326,465).

	Number of directors 2010	2009
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	3	2
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

	2010 £000	2009 £000
United Kingdom Corporation Tax		
United Kingdom Corporation Tax at 28% (2009: 28%)	11,741	8,756
Adjustment in respect of prior periods	(161)	2,624
	11,580	11,380
Double taxation relief	(388)	(370)
	11,192	11,010
Foreign tax		
Current tax on income for the period	415	271
Adjustment in respect of prior periods	—	126
	415	397
Total current tax	11,607	11,407
Deferred tax charge/(credit) (note 17)	5	(1)
Tax on profit on ordinary activities	11,612	11,406

NOTES

CONTINUED

11. (b) Factors affecting the current tax charge

The tax charge for the year is lower than (2009 – higher than) the standard rate of corporation tax in the UK at 28%.

	2010 £000	2009 £000
Profit on ordinary activities before tax	41,930	31,270
Current tax at 28% (2009: 28%)	11,741	8,756
Differences on overseas tax rate	27	27
Adjustments in respect of prior periods	(161)	2,624
United Kingdom Corporation Tax	11,607	11,407

12 OTHER FINANCIAL INVESTMENTS

	Market Value 2010 £000	Market Value 2009 £000	Cost 2010 £000	Cost 2009 £000
Debt securities and other fixed income securities	1,361,740	1,328,271	1,342,228	1,301,415
	1,361,740	1,328,271	1,342,228	1,301,415
Included in debt securities and other fixed income securities:				
Listed on the London Stock Exchange	1,331,300	1,302,856	1,311,152	1,276,079
Listed on other investment exchanges	30,440	25,415	31,076	25,336
	1,361,740	1,328,271	1,342,228	1,301,415

13. DEBTORS ARISING OUT OF INSURANCE OPERATIONS

	2010 £000	2009 £000
Amounts owed by intermediaries	34,117	45,929
Amounts owed by policyholders	104	3,055
	34,221	48,984

NOTES

CONTINUED

14. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2010 £000	2009 £000
Amounts owed by reinsurers	970	4,532
	970	4,532

15. OTHER DEBTORS

	2010 £000	2009 £000
Amounts owed by group undertakings	94	744
Corporation tax recoverable	146	1,623
Other debtors	2,126	2,031
	2,366	4,398

16. DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2010 £000	2009 £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

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

	2010		2009	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Expense provision	165	—	173	—
	165	—	173	—

(b) Movement in provided deferred tax

	2010 £000	2009 £000
Deferred tax asset brought forward	173	172
Expense provision	(5)	1
Foreign exchange revaluation of opening provision	(3)	—
Deferred tax asset carried forward	165	173

NOTES

CONTINUED

18. CALLED UP SHARE CAPITAL

	2010	2009
	£000	£000
Allotted, called up and fully paid		
203,822,115 (2009: 203,822,115) ordinary shares of £1 each	203,822	203,822

19. RESERVES

	Share premium account	Profit and loss account	Total
	£000	£000	£000
At beginning of year	699	296,366	297,065
Profit for the year	—	30,318	30,318
Dividend	—	—	—
Currency translation differences on foreign currency net investments	—	2,637	2,637
At end of year	699	329,321	330,020

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 Companies Act 2006 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 £15,234,000 (2009: £14,473,000). 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 £761,000 (2009: £2,177,000).

NOTES

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21. TECHNICAL PROVISIONS AND DEFERRED ACQUISITION COSTS

	Provision for unearned premiums £000	Claims outstanding £000	Equalisation provisions £000	Total £000
Gross amount				
At beginning of the year	171,858	780,080	14,473	966,411
Currency translation differences	(1,469)	(8,267)	—	(9,736)
Movement in the provision	(6,469)	(2,793)	761	(8,501)
At end of the year	163,920	769,020	15,234	948,174
Reinsurance amount				
At beginning of the year	(29,927)	(48,517)	—	(78,444)
Currency translation differences	83	502	—	585
Movement in the provision	4,781	(6,159)	—	(1,378)
At end of the year	(25,063)	(54,174)	—	(79,237)
Net technical provisions				
At end of the year	138,857	714,846	15,234	868,937
At beginning of the year	141,931	731,563	14,473	887,967

Technical provisions and deferred acquisition costs

	2010 £000	2010 £000	2009 £000	2009 £000
Net technical provisions at end of year		868,937		887,967
Deferred acquisition costs				
– gross	(19,983)		(20,520)	
– reinsurance commissions	1,211		1,100	
		(18,772)		(19,420)
Net insurance funds		850,165		868,547

22. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2010 £000	2009 £000
Insurance premium taxes	4,296	3,683
Amounts owed to group undertakings	12,521	2,650
Tax payable	—	4,614
Other creditors	544	1,003
	17,361	11,950

NOTES

CONTINUED

23. ACCRUALS AND DEFERRED INCOME

	2010	2009
	£000	£000
Reinsurers' share of deferred acquisition costs	1,211	1,100
Accrued expenses	5,131	4,632
	6,342	5,732

24. 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 2008, updated for FRS 17 purposes to 31 December 2010, by a qualified independent actuary.

The full actuarial valuation at 1 April 2008 identified a deficiency of scheme assets of £3,019,000. Following the valuation it was agreed that monthly contributions of £68,100 would be make for four and a half years commencing 1 July 2009, totalling £3,677,400. In the 2010 year contributions made totalled £817,000 (2009 £408,600).

The updated valuation for FRS 17 purposes to 31 December 2010 identified a deficit of scheme assets of £579,000 (2009: deficit of £1,362,000).

25. 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 £64,006,387 (2009: £56,180,304). The amount owing to Travelers Management Limited at the year end was £5,795,000 (2009 £2,388,000).

26. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business letters of credit to the value of £157,012 (2009 £159,035) have been issued to fiscal authorities against insurance tax liabilities. These 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.

NOTES

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27. 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.

28. 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 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.

29. INVESTMENTS IN GROUP UNDERTAKINGS

Travelers Professional Risks Limited is a wholly owned subsidiary of Travelers Insurance Company Limited.

Under the Companies Act 2006 Section 401, for accounting periods beginning 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 has therefore not been consolidated in these accounts. Travelers Professional Risks Limited had net assets at 31 December 2010 of £242,540 (2009 £206,540).

REPORT OF THE INDEPENDENT AUDITORS 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 2010 set out on pages 8 to 28. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 Part 16 of the Companies Act 2006, having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31st December 2010 and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit and loss before tax, are disclosed in notes 20 and 21.

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 explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

CONTINUED

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

NB Priestley (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

25 March 2011

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