

Group Solvency and Financial Condition Report

TRAVELERS INSURANCE COMPANY LIMITED
YEAR ENDED 31 DECEMBER 2021

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Executive Summary

Business and Performance

Travelers Insurance Company Limited (**The Company and "TICL"**) is a United Kingdom regulated entity authorised to carry out general insurance business. The scope of this Solvency and Financial Condition Report (**SFCR**) is the Travelers Insurance Company Limited Group, which incorporates the results of the Company and of its wholly owned Irish subsidiary, Travelers Insurance Designated Activity Company (**"TIDAC"**). An EEA Group came into existence when TIDAC was authorised as an insurance undertaking in January 2019 (**the Group**). TICL is the parent company of the Group.

The Group does not produce consolidated UK GAAP accounts that are publicly available. The Group is exempt by virtue of S401 of the Companies Act 2006 from the requirement to prepare group financial statements. The Company's results are included in the consolidated accounts of its parent, The Travelers Companies, Inc., whose accounts are publicly available.

The ultimate parent company, The Travelers Companies, Inc. (**Travelers**), is a leading provider of property and liability insurance based in the United States. Travelers, including its subsidiaries, has more than 30,000 employees and over 150 years' experience in the insurance industry. Travelers is traded on the New York Stock Exchange as "TRV" and is one of the 30 select companies that comprise the Dow Jones Industrial Average. As at 31 December 2021 Travelers reported total assets of US\$120.5 billion (2020: US\$116.8 billion) and shareholders' equity of US\$28.9 billion (2020: US\$29.2 billion).

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

Before 1 April 2019 the Company wrote commercial lines insurance in the United Kingdom and, through its branch in Dublin, Ireland. From 1 April 2019, all new business and renewals for the Company's branch in Ireland were written by the Company's wholly owned Irish subsidiary, TIDAC. On 1 October 2019 a Part VII insurance business transfer of the business of the Company's Ireland branch and of its run-off branches in Holland, France and Germany, to TIDAC was completed. The Group also covers risks located outside of the UK and Ireland, primarily in support of its UK and Ireland based insureds. There have been no changes to the scope of the Group's operations during 2021.

The Group is a provider of insurance solutions targeted at specific customer groups where it can add value with tailored insurance coverage or specific claims handling and risk management expertise. The Group's major target customer groups include technology, healthcare and automotive companies, local authorities, property owners, solicitors, financial institutions, and large corporate insureds. The Group also writes certain specialty classes of insurance including Renewable Energy, Public and Private Company D&O and certain marine classes, including Hull, Cargo and Ports and Terminals.

Travelers' European based operations offer our customers a wide range of cover through the Company, TIDAC, Travelers Syndicate Management Limited (the Managing Agent of Syndicate 5000 at Lloyd's) and Travelers Underwriting Agency Limited.

Performance

The Group prepares accounts under UK GAAP FRS 102 for the purpose of Solvency II filing. The Group reported a profit for the year after tax of £29.8m (2020: loss of £15.6m).

System of Governance

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

The Company's Board comprises eight directors, three of whom are independent non-executive directors. The Board has three constitutional committees, the Audit Committee, the Risk and Remuneration Committee and the Governance Committee, the members of all of which are the independent non-executive Board directors. During the year, and following regulatory approval, one of the independent non-executive directors was appointed as Chair of the Board.

The Boards and each Committee have clear Terms of Reference which are reviewed by the relevant committee on an annual basis. The Group's executive management is undertaken by the Senior Leadership Team (**SLT**), comprising the senior managers who effectively run the Group. The SLT reports to the Company's Board on a quarterly basis.

Governance over other aspects of the Group's activities is within the scope of the Executive Risk Committee, the Finance Committee, the Underwriting Committee, and certain panels which have specific terms of reference. Each committee and panel is governed by its own terms of reference. The Group ensures that all persons who effectively run the Group, or hold key functions, are fit and proper to undertake their roles. The Group assesses the fitness and propriety of persons performing key functions on an ongoing basis. In addition, the Group has an annual performance assessment process which measures performance against minimum competencies required for those persons effectively running the Group.

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

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

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

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

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

The internal control system is designed to ensure that the Group achieves its objectives through operational effectiveness and efficiency, robust financial reporting and compliance with rules, regulations and policies. The tone for the control environment is set by the Shareholder, The Travelers Companies, Inc., the Group's board of directors and the Group's SLT, who are all committed to a culture of management integrity, transparency and honesty, and who attribute high importance to the establishment and maintenance of a strong system of internal controls. A key aspect of the internal control framework is a robust risk management framework that ensures strong processes exist for risk identification, risk measurement and

risk monitoring, and that ensures appropriate risk mitigation strategies are in place. Internal controls are documented in the risk control policies and the accompanying policy and procedure documents. The operation of these internal controls and risk identification processes is monitored by the four control functions, namely the Compliance function, the Internal Audit function, the Actuarial function and the Risk Management function.

Risk Profile

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

In respect of Market Risk, the Group employs an investment philosophy that focuses on appropriate risk-adjusted returns. It invests wholly in high quality government and corporate fixed interest securities. Credit Risk is managed through the thoughtful analysis and selection of individual counterparties and the use of limits and managing exposures to individual counterparties. The Group has no material liquidity risk exposures.

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

The Group has been in compliance with its regulatory capital requirements throughout the year and remains so to the date of this report and continues to monitor this closely.

Valuation for Solvency purposes

The valuation of assets and liabilities for the Group on a Solvency II and UK GAAP basis as at 31 December 2021 is summarised below:

	Solvency II	UK GAAP	Difference
	£ 'm	£ 'm	£ 'm
Assets	1,671.8	1,844.4	(172.6)
Gross Technical Provisions	1,106.5	1,223.6	(117.1)
Other Liabilities	17.4	61.2	(43.8)
Excess of Assets over Liabilities	547.9	559.6	(11.7)

2020	Solvency II	UK GAAP	Difference
	£'m	£'m	£'m
Assets	1,515.8	1,661.3	(145.5)
Gross Technical Provisions	1,004.8	1,090.5	(85.7)
Other Liabilities	18.4	56.5	(38.1)
Excess of Assets over Liabilities	492.6	514.3	(21.7)

For the Group the excess of assets over liabilities is lower on a Solvency II basis than under UK GAAP. This difference largely reflects the fact that the benefit of the removal of the reserve margin carried under UK GAAP, and the recognition of profits on unearned and bound but not incepted premiums, does not offset the adverse impact of the adjustments required to put technical provisions onto an economic basis.

Capital Management

The Group uses the Solvency II Standard Formula to calculate its regulatory Solvency Capital Requirement (**SCR**). The Group does not use any undertaking specific parameters. The amount of the Group's SCR at 31 December 2021 was £441.3m (2020: £370.5m). The Group was in compliance with its regulatory capital requirements throughout the year and through to the date of this report.

A. Business and Performance

A.1 Business

Name and legal form of the undertaking

Travelers Insurance Company Limited is a company limited by shares and is incorporated in England. Its registered office address is One Creechurch Place, London. EC3A 5AF. This is a Group SFCR covering the Company and its wholly owned subsidiary, TIDAC. A Group came into existence when TIDAC was authorised as an insurance undertaking in January 2019.

TIDAC is a wholly owned subsidiary insurance undertaking of the Company, domiciled in the Republic of Ireland. TIDAC is authorised and regulated by the Central Bank of Ireland and has established a branch in the United Kingdom which is authorised by the Prudential Regulation Authority (**PRA**) and the Financial Conduct Authority (**FCA**). The TIDAC UK Branch has been entered into the FCA's Temporary Permission Regime.

Organisational group structure

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

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

Travelers Underwriting Agency Limited (**TUAL**) is an authorised intermediary based in the UK and a fellow subsidiary of TICL. TRV is the ultimate and immediate parent undertaking of TUAL which, as an intermediary, has no regulatory capital requirements.

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

The PRA in the UK is responsible for the prudential supervision of the Company and its Group. The FCA in the UK is responsible for the conduct supervision of the Company. The PRA can be contacted at Bank of England, Threadneedle St, London, EC2R 8AH United Kingdom, and the FCA at 12 Endeavour Square, London E20 1JN, United Kingdom. The Central Bank of Ireland is responsible for the prudential and conduct supervision of the Company's subsidiary, TIDAC.

The Company is a member of The Travelers Companies, Inc., group based in the United States of America, which is not an equivalent country for Solvency II group supervision. On 31 December 2015, the Company received a direction given by the PRA under section 138A of the Financial Services and Markets Act 2000, which took effect on 1 January 2016. The direction modifies Rules 20.1 and 20.2 (Group Supervision) of the PRA Rulebook and requires that the Company provides the PRA with certain information relating to the Group. The direction is valid until 1 October 2024 unless revoked or any conditions in the modification cease to be fulfilled.

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

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

Material lines of business and geographical area

The Group writes commercial lines insurance in the United Kingdom and Ireland. The Group also covers risks located outside of the UK and Ireland in support of its UK and Ireland based insureds by way of facultative reinsurance. The Group also has branches in the Netherlands, France and Germany that have been in run-off since 2001. Approximately 12% (2020: 12%) of the Group's 2021 gross premiums were written in Ireland.

The Group continues to be a provider of insurance solutions targeted at specific customer groups where it can add value with tailored insurance coverage or specific claims handling and risk management expertise. The Group's major target customer groups include technology, healthcare and automotive companies, local authorities, property owners, solicitors, financial institutions and large corporate insureds. The Group also writes certain specialty classes of insurance including Renewable Energy, Public and Private company D&O and certain Marine classes, including Hull, Cargo and Ports and Terminals.

Material events in the year

COVID-19

The year was again dominated by the impact of the COVID-19 global pandemic. The Group has suffered no further material insurance losses as a result of the pandemic. The Group's staff have been operating in a working from home environment throughout most of the year. The global economic recession and the threat of rising inflation, supply chain issues and labour shortages following the pandemic has created volatility in investment markets and uncertainty in the operating environment as the Group looks forward over the short to medium term.

Share Capital increase

During the year the Group received a capital injection from its shareholder of £39m in return for the issuance of 39 million £1 ordinary shares. The parent company of the Group in turn made a capital injection of €30m into its subsidiary TIDAC in return for 30 million €1 ordinary shares.

Performance

The UK and Ireland commercial lines marketplaces remain very competitive, although rates have started to harden appreciably during the year.

The Group reported a combined ratio of 92.5% (2020: 110.4%) and a profit for the year after tax of £29.8m (2020: loss of £15.6m).

There are no differences between the scope of the Group used for the consolidated financial statements and the scope of the Group used for the consolidated data determined in accordance with Article 335 of the Delegated Regulation.

Material related party transactions

The Group has some investments on deposit with Lloyd's to support the underwriting capital requirements of Syndicate 5000, the capital providers of which are wholly owned affiliated group undertakings. The amount of such investments the Group had placed on deposit reduced during the year to £20.0m (2020: £83.0m).

Certain elements of the Group's reinsurance programme are placed with affiliated Travelers group undertakings. All Surety business is 100% reinsured with Travelers Casualty & Surety Company of America. A legacy London Market run off portfolio is reinsured 100% with The Travelers Indemnity Company. Certain elements of the reinsurance programme for ongoing business are placed with The Travelers Indemnity Company. In most cases these are small shares of layers that are largely placed externally. The exception is the first layer of the property catastrophe reinsurance programme, a £40m excess of £10m layer, which is placed 100% with The Travelers Indemnity Company.

All expenses and salary costs continue to be borne in the first instance by the Travelers group's wholly owned management services company in the UK, Travelers Management Limited. Some services are provided by affiliated TRV group companies in the US to Travelers Management Limited for the benefit of the Group pursuant to an intercompany services agreement. Investment management is outsourced to The Travelers Indemnity Company, an affiliated TRV group company.

No distribution has been made by the Group to the shareholder during the year or is proposed as at the year end.

Subsequent events

The conflict in Ukraine has arisen subsequent to the end of the year. The Group does not have material exposures in Russia and Ukraine and, as such, does not expect this conflict to have a material impact on its results.

Subsequent to the end of the year the Group suffered a gross loss of £35m on a marine cargo policy which was ceded to a reinsurer outside of the UK as part of the International Network of Insurers. This loss is wholly recoverable from the reinsurer and there will be no net loss to the Group.

External auditor

The Company's external auditor for the 2021 financial year is Mazars LLP. The contact details of Mazars LLP are 30 Old Bailey, London EC4M 7AU.

A.2 Underwriting performance

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

	2021	2020	Change
	£'m	£'m	£'m/%
Gross written premiums	498.1	404.2	93.9
Net written premiums	422.1	345.4	76.7
Net earned premiums	388.4	319.6	68.8
Incurred claims	(231.6)	(242.7)	11.1
Operating expenses	(127.6)	(110.1)	(17.5)
Underwriting Result	29.2	(33.2)	62.4
Loss Ratio	59.6%	75.9%	16.3pts
Expense Ratio	32.9%	34.4%	1.5pts
Combined Ratio	92.5%	110.3%	17.8pts

The Group reported a £29.2m underwriting profit in 2021 (2020 : £33.2m underwriting loss) and a 92.5% combined ratio (2020 : 110.3%). The Group benefitted from favourable prior year reserve development of £23.2m (2020: £1.3m). Excluding the favourable prior year reserve development, the combined ratio was 98.5% (2020: 110.7%).

The stronger performance in 2021 was driven by the 16.3pt improvement in the loss ratio. This was a consequence of the absence of COVID – 19 losses in 2021, which had added 6.9pts to the 2020 loss ratio, and the higher level of favourable prior year reserve development, which provided a year-on-year benefit of 5.6pts to the loss and combined ratio.

Gross written premiums increased by 23.3%, or £93.9m, to £498.1m (2020: £404.2m). Growth was strong across all three areas of the business, being, the commercial middle market, the professional lines portfolios and the London Market specialty classes. All areas benefitted from strong rate increases during the year. The expense ratio improved to 32.9% (2020: 34.4%) driven by the growth in earned premium.

The two most material lines of business are General Liability and Property, which respectively comprised 58.5% (2020: 58.9%) and 29.0% (2020: 27.5%) of net earned premiums in 2021. The General Liability combined ratios improved over the prior year to 96.3% (2020: 104.3%). The Property combined ratio improved to 94.1% (2020: 111.9%). 2020 was impacted by COVID-19. The most material geographical area in which the Group writes business is the United Kingdom which, based on gross written premiums, comprised 87.6% of the Group's business in 2021 (2020: 87.3%). The business written in the United Kingdom reported a combined ratio of 90.4% (2020: 108.3%).

Further information on underwriting performance by material line of business and material geographical areas over the reporting period can be found at Form S.05.01.02 and Form S.05.02.01 respectively within the quantitative returns in the Appendix to this report.

A.3 Investment performance

During the year the Group continued to invest wholly in high quality government and corporate fixed interest securities. These are considered as a single asset class and are managed together. The total investment return for the year for the Group was a loss of £23.9m (2020: profit of £27.3m). The composition of the investment return was as follows:

	2021	2020	Change
	£'m	£'m	£'m
Investment income	24.3	25.3	(1.0)
Realised investment gains	0.7	0.3	0.4
Realised investment losses	(21.7)	(16.7)	(5.0)
Unrealised investment gains	(26.2)	19.3	(45.5)
Investment expenses	(1.0)	(0.9)	(0.1)
Total investment return	(23.9)	27.3	(51.2)

Realised investment losses arose as bonds bought above par value have subsequently matured. The portfolio showed significant unrealised movements during both 2021 and 2020 as market expectations of interest rate movements changed.

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

A.4 Performance of other activities

Other income for the Group reduced to £0.4m during the year (2020: £3.4m). This was due to foreign exchange losses and a lower level of fee income due to a smaller amount of assets pledged to support the capital requirements of the Group's Lloyd's Syndicate.

A.5 Any other information

During the year the Group produced a total comprehensive gain on a UK GAAP basis of £6.3m (2020: £3.6m). The increase of only £2.7m, notwithstanding a £56.7m increase in pre-tax profit for the year, is due to the unrealised return on the investment portfolio pre-tax being £45.5m lower than in 2020.

B System of Governance

B.1 General information on the system of governance

B.1.1 Governance structure

Overall governance and oversight of the Group is provided by the Company's Board (the Board), which comprises eight directors. Three of the directors are independent non-executive directors. Three directors are non-executive and the remaining two directors are executive directors.

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

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

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

The Board Audit Committee has the following broad responsibilities:

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

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

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

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

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

The Board Governance Committee has the following broad responsibilities:

- Board Composition: recommending to the Company's board of directors individuals for election or re-election as independent non-executive directors;
- Board Effectiveness: overseeing the process for evaluating Board and Board committee effectiveness; and
- Corporate Governance: developing and recommending to the Board governance frameworks, principles and policies, including by monitoring developments in corporate governance and considering the applicability of such developments to the Company's needs and circumstances.

At an executive level, the Group is managed by a Senior Leadership Team (**SLT**), comprising the senior managers who effectively run the Group. The SLT meets fortnightly and is chaired by the CEO. The SLT reports on a quarterly basis to the Board. In addition, the CEO is also a member of the Board and presents a CEO's report to the Board which includes details of matters discussed by the SLT. The SLT considers the following matters on a regular and continuous basis:

- (i) ongoing management and review of progress against the Group's strategy as approved by the Board;
- (ii) monitoring of the Group's trading results and financial position;
- (iii) review of the Groups operations and functions;
- (iv) review of the talent within the Group;

- (v) management of special projects; and
- (vi) reporting to the Group's parent company.

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

Governance over the Group's risk management is provided by the Executive Risk Committee (ERC), chaired by the Chief Risk and Administrative Officer, which meets at least quarterly as well as on an ad-hoc basis when required. The Chief Risk and Administrative Officer reports monthly to the SLT and quarterly to the Board Risk and Remuneration Committee and to the Board.

Challenge from a customer perspective of high product risk insurance products is provided by the Product Oversight Group, chaired by the General Counsel and which meets on an ad hoc basis, but at least once per quarter. The Chief Actuary reports monthly to the SLT and quarterly to the Board.

Governance over underwriting matters is provided by the European Underwriting Committee, chaired by the Head of Bond and Specialty Insurance, which meets monthly. Underwriting performance is reported monthly to the SLT and quarterly to the Board.

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

B.1.2 Remuneration Policy

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

In addition, compensation of each employee is reviewed by their line manager, functional manager, CEO and the Head of HR, and the equivalent functional roles within the Group's parent company. Compensation is delivered through a combination of base salary and incentive compensation, consisting of an annual cash bonus and stock-based, long-term incentive awards, all of which are performance based.

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

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

- the performance of the employee;
- compensation market practices as reflected by external vendor compensation surveys;
- performance of the Group relative to financial measures set in the business plan, prior year's

- performance and the performance of industry peers; and
- performance of The Travelers Companies, Inc. relative to financial objectives.

Additional qualitative factors are also considered, such as:

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

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

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

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

B.1.3 Supplementary Pension Scheme or early retirement scheme for members of the administrative, management or supervisory body and other key function holders

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

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

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

B.1.4 Material Transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body

There were two new material related party transaction with the Company's shareholder during the year.

The Group has some investments on deposit in a trust at Lloyd's to support the underwriting capital requirements of Syndicate 5000, the capital providers of which are wholly owned affiliated group undertakings. The amount of such investments the Group had placed on deposit in this trust reduced during the year to £20.0m (2020: £83.0m).

In December 2021 the Company received a capital injection from its ultimate parent, The Travelers Companies, Inc. of £39m in return for the issuance of 39 million £1 ordinary shares.

B.2 Fit and proper requirements

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

- (i) identify the key functions that are important to the sound and prudent management of the business, and
- (ii) set out the policies and procedures in accordance with the Senior Managers & Certification Regime for the fit and proper assessment of the individuals that perform key functions, including every person in respect of whom an application for approval is made.

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

- (i) At least two interviews conducted by the hiring manager and at least one other permanent member of staff.
- (ii) Background check process which will include, as a minimum:
 - a. Criminal records check,
 - b. Credit check,
 - c. Verification of previous employment for the last seven years (unless the individual has been continuously employed by a Travelers group company during this period),
 - d. Verification of educational and professional qualifications, and
 - e. reasonable steps to obtain appropriate references from the person's current and previous employers.

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

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

- the person's role and responsibilities by reference to their job description (and, for approved persons only, the approved person competency set and scope of responsibilities document (as applicable));
- whether the individual has attended the necessary training (including risk and compliance training) in order to remain competent and capable to perform the role;
- the individual's business conduct; and
- whether the person has performed his or her key function in accordance with the relevant conduct standards (which apply to that individual).

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management system

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

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

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

Responsibilities in the risk strategy are summarised as:

The First Line of Defence – Business Management

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

The Second Line of Defence – Oversight

The second line of defence primarily comprises the Risk Management, Actuarial and Compliance functions. The second line of defence provides independent assurance to the Board with regards to the adequacy and effectiveness of risk management.

The Third Line of Defence – Assurance

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

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

Key risk management information, linked to the risk strategy, including specific risk appetite metrics and risk assessments, are employed across the entirety of the business to measure and monitor the level of risk taking actually occurring, and to provide a view of the Group's progress against its business plans. The Risk Management function facilitates production and provides oversight of this key risk management

information, through the risk register, which enables the Group effectively to identify, assess, measure and monitor individual and aggregated risks frequently. Risk register metrics and assessments also provide appropriate inputs into capital modelling and forecasting processes (e.g. the ORSA, and other internal requirements). The risk register and associated reporting is integrated into the organisational structure as Risk and Control Owners (the majority of who are in the first line of defence) frequently review the risks to which the Group is exposed with review and challenge by the Committees and the second line of defence.

B.3.2 Own Risk and Solvency Assessment (ORSA)

The ORSA process is an ongoing and forward-looking process of the Group's reflection and assessment of its own risks to ensure it holds enough capital for current and future solvency needs as well as assessment of non-solvency risks.

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

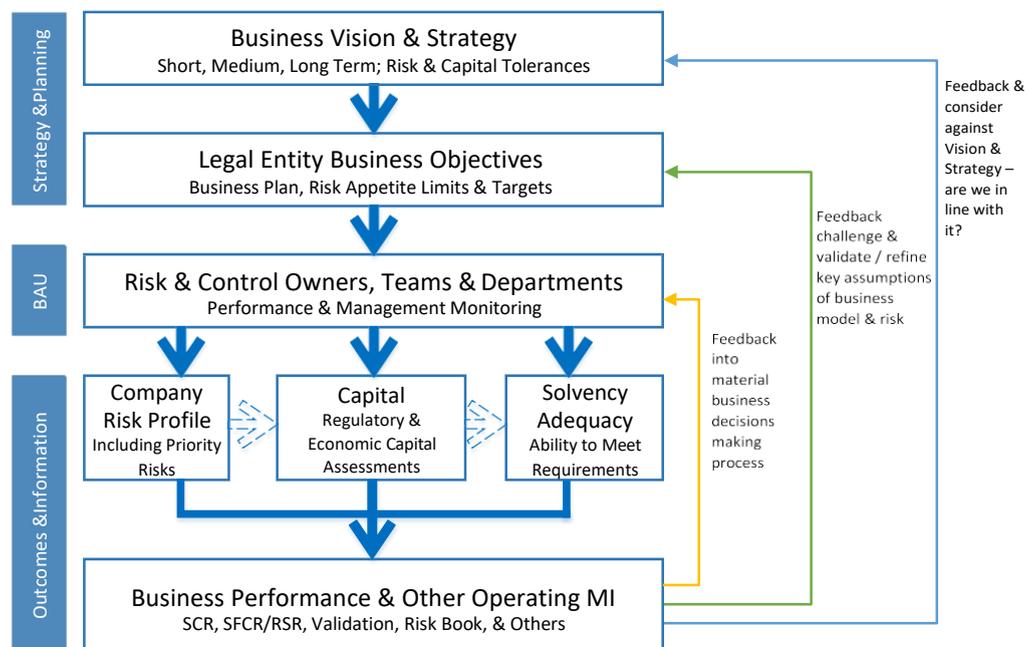
- To develop and embed an ongoing process enabling the assessment of the Group's own solvency needs that takes into account its specific risk profile, approved risk appetite limits, and its short and long-term business and capital strategies.
- To provide sufficient information that enables management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

The ORSA process is embedded in the first line of defence, and focuses on the Group's business model, the portfolio of its products and customers, its risk profile, its plans over the short to medium term, and capital management. The outputs of the ORSA process are documented in the annual ORSA report.

In the ORSA report, the Group describes its risks, the capital it requires and the risk management work that assures policyholder benefits. Its production is governed by the Travelers Europe ORSA Policy which is owned by the Chief Risk and Administrative Officer and reviewed at least annually by the Board and the ERC. The ORSA is reviewed and approved by the Board and is expected to be submitted at least annually to the PRA and contributes to securing an appropriate degree of protection for policyholders.

In order to achieve the Group's ORSA objectives and fulfil its obligations, the ORSA requires adequate and robust processes to assess, monitor and measure risks, including non-quantifiable risks such as reputational, strategic, and group risks alongside overall solvency needs. This is primarily achieved through the RMF which provides a structured process across the business that links business planning, execution of those plans, monitoring and assessment of the risk and capital profile that results, and the incorporation of insights and findings into business planning.

The high-level principles are presented below.



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

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

B.3.3 Climate Related Financial Risks

Climate related financial risks are considered in the Risk Management Framework and ORSA process. Further details of The Travelers Companies Inc. Climate Change Strategy can be found at <https://sustainability.travelers.com/drivers-of-sustained-value/climate-strategy/>

B.4 Internal Control System

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

The tone for the control environment is set by the Group’s parent, the Board and the SLT who are committed to a culture of management integrity, transparency and honesty, and who attribute high importance to the establishment and maintenance of a strong system of internal controls. A key aspect of the internal control framework is a robust risk management framework that ensures strong

processes exist for risk identification, risk measurement and risk monitoring and that ensures appropriate risk mitigation strategies are in place. Internal controls are documented in the risk control policies and the accompanying policy and procedure documents. The operation of these internal controls and risk identification processes is monitored by the four control functions, namely the Compliance function, the Internal Audit function, the Actuarial function and the Risk Management function.

B.4.1 Delegation of Responsibilities

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

B.4.2 Compliance Function

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

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

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

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

The Compliance function reports:

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

B.5 Internal Audit Function

The Group has a discrete internal audit local function based in London which reports into the Head of Internal Audit in the US. In addition, the Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee and meets each year with the Audit Committee without executive management in attendance.

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

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

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

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

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

The Internal Audit Function reports:

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

B.6 Actuarial Function

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

The European Chief Actuary reports to the CEO of the Group to ensure that the Actuarial Function is not unduly influenced by the underwriting function.

The Actuarial Function Reports, and the Opinions on Underwriting Policy and Reinsurance Arrangements, are produced annually and presented to the Board by the European Chief Actuary, having first been reviewed by the Executive Risk Committee. The Board exercises appropriate additional oversight over the reserving process by receiving quarterly reports from the Group's actuarial team which are presented by

the European Chief Actuary. Detailed review of the quarterly reserve reports is delegated to the Finance Committee and on an annual basis the Audit Committee meets with the European Chief Actuary and the External Auditors to receive reserve reports and to discuss reserving issues. Controls over the Board and Group's senior management having an undue influence on the activities of the Actuarial Function arise from the maintenance of professional standards of conduct by the in-house actuarial team, oversight from external auditors and peer reviews by other actuaries within the wider Travelers organisation.

B.7 Outsourcing

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

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

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

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

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

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

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

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

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

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

In accordance with the requirements of both the PRA and the Central Bank of Ireland on Outsourcing and third party risk management, the Group’s outsourcing policy and procedures are being reviewed. Any changes will be submitted to the TICL and TIDAC Boards for approval.

B.8 Any other information

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

C. Risk Profile

C.1 Underwriting Risk

Underwriting risk as at 31 December 2021 comprised 83.3% (2020: 84.7%) of the undiversified basic SCR.

C.1.1 Material Risk Exposures

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

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

There were no changes to the measures used to assess material underwriting risk exposures during the period.

The reference to “Life underwriting risk” in the Standard Formula and the quantitative templates relates to exposures in respect of claims funded by periodic payment orders.

C.1.2 Material Risk Concentrations

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

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

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

C.1.3 Material Risk Mitigation

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

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

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

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

The Finance Committee performs a comprehensive review of the projections, both gross and net of reinsurance and following this review makes recommendations to the Board of the appropriate claims provisions to be established. In arriving at the level of claims provisions carried a margin is applied over and above the actuarial best estimate to limit the likelihood of adverse run-off deviation.

C.1.4 Risk Sensitivity and Sensitivity Analysis

The major underwriting risk sensitivities are to the adequacy of reserves established at 31 December 2021 and to the projected loss ratio at which business will be written in the next twelve months. Should the net reserves established at 31 December 2021 deteriorate by 5% the impact on shareholders' funds post tax will be to reduce them by £40.3m (2020: reduce by £37.0m). Should the loss ratio projected for the 2022 year deteriorate by 5 points, the impact on shareholders' funds post tax for the Company would be a deterioration of £14.4m (2020: deterioration of £13.7m).

C.2 Market Risk

C.2.1 Material Risk Exposures

Market risk as at 31 December 2021 comprised 13.1% (2020: 12.5%), of the undiversified basic SCR.

The Group's material market risk exposures are to interest rate risk and asset price risk on the fixed income investment portfolio, foreign currency risk through having unmatched foreign currency assets and liabilities, and credit risk to investment counterparties.

As at 31 December 2021 the Group had an investment portfolio comprised of government and corporate bonds with a market value of £1,416.1m (2020: £1,254.9m). All investments are high quality, highly liquid and traded on a recognised investment exchange and as such comply with the prudent person principle embedded in the Solvency II directive. The Group does not use derivatives other than to mitigate risk and has not utilised derivatives during 2021 or the prior year.

The Group's only foreign currency exposures are to the Euro, through its subsidiary in Ireland, and to the US dollar through business written denominated in US dollars and through transactions with affiliated group companies based in the United States.

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

There were no changes during the year to the measures used to assess material market risk exposures.

C.2.2 Material Risk Concentrations

The Group's most material investment exposure is to the bonds of the UK Government. At 31 December 2021 the market value of its holding in UK government bonds was £135.3m (2020: £179.7m) or 10% (2020: 14%) of its investment portfolio. The Group's single largest holding in a corporate bond was £43.5m (2020:£48.1m) or 3% (2020: 4%) of its investment portfolio.

The Group's only material foreign currency exposure as at 31 December 2021 and 31 December 2020 was to the Euro due to its investment in its subsidiary Travelers Insurance DAC.

C.2.3 Material Risk Mitigation

Management of the Group's investment portfolio is outsourced to an affiliated group company, The Travelers Indemnity Company. The investment strategy is agreed annually by the Company's Board and performance against this strategy is reviewed quarterly in meetings between the investment manager and the Finance Committee. The Group invests in high quality and highly liquid assets that are traded on recognised investment exchanges and are rated "A-" or higher with Standard & Poor's. Limits are in place to manage exposures to particular industries and individual counterparties. The term of the invested assets purchased are set to approximate the duration of the underlying insurance liabilities.

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

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

C.2.4 Risk Sensitivity

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

C.2.5 Sensitivity Analysis

The investment portfolio typically has a relatively short duration approximating the term of the insurance liabilities. If interest rates had risen by 100 basis points as at 31 December 2021, shareholder's equity for the Group on a UK GAAP basis would have reduced by £29.4m (2020: £25.2m) after tax.

The failure of its largest corporate investment counterparty as at 31 December 2021 would cost the Group £43.5m, or approximately 6% of the net assets on a UK GAAP basis net of tax, (2020: £48.1m, or approximately 7% of the Group's net assets on a UK GAAP basis net of tax).

The impact of a 10% movement in the exchange rate for the largest currency exposure impacts the Group's net assets post tax by approximately £6m as at 31 December 2021 (2020: approximately £6m).

C.3 Credit Risk

C.3.1 Material Risk Exposures

Credit risk as at 31 December 2021 comprised 3.3% (2020: 2.8%) for the Group of the undiversified basic SCR. The Group's material credit risk exposures are to reinsurers, brokers and policyholders through their insurance underwriting activities.

There were no material downgrades to the credit ratings of the Company's reinsurer or investment counterparties during the year. All counterparty credit ratings remained within the Company's risk appetite

There were no changes to the measures used to assess those material risk exposures during the year.

C.3.2 Material Risk Concentrations

The single biggest reinsurer exposure as at 31 December 2021 for the Group was £22.3m (2020: £32.1m). There was no material exposure to any individual broker or policyholder.

C.3.2 Material Risk Mitigation

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

The Group's policy is to purchase reinsurance only from those reinsurers who meet the Travelers Group's security standards. Reinsurance counterparties are subject to a rigorous internal assessment

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

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

1.1.1 Risk Sensitivity

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

1.1.2 Sensitivity Analysis

Failure of the largest corporate bond counterparty and reinsurer counterparty at the same time as at 31 December 2021 would cost the Group an amount representing approximately 11.7% (2020: 15.4%) of their net assets on a UK GAAP basis pre-tax.

C.4 Liquidity Risk

C.4.1 Material Risk Exposures

The Group has no material liquidity exposures. The Group has no external debt, is well capitalised, and has a highly liquid investment portfolios whose duration is set to match the duration of its insurance liabilities. The Group is the subsidiary of a financially strong parent company, The Travelers Companies, Inc.

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

C.4.2 Material Risk Concentrations

The Group has no material liquidity risk concentrations.

C.4.3 Material Risk Mitigation

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

C.4.4 Risk Sensitivity

The Group has no particular sensitivities to liquidity risk.

C.4.5 Expected Profit in future Premiums

The expected profit in future premiums reported in form S.23.01 for the Group is £11.6m (2020: £9.5m).

C.5 Operational Risk

C.5.1 Material Risk Exposures

Operational Risk is 7.0% of the Group’s final SCR (2020: 7.7%).

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

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

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

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

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

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

Process Risks	Mitigating Activities / Tools
Business Operation and Process Failures	<ul style="list-style-type: none"> • Documented controls and procedures • Statistical reporting • Business Continuity arrangements
Governance Failures	<ul style="list-style-type: none"> • Documented controls and procedures • Corporate Governance Structure
Health & Safety Procedural Failures	<ul style="list-style-type: none"> • Documented controls and procedures • Review and enhancement of risk control activities • Periodic review of projects and activities

Process Risks	Mitigating Activities / Tools
Change Management Failures	<ul style="list-style-type: none"> • Compliance with Travelers Group Change Management Processes and Procedures
People Risks	Mitigating Activities / Tools
Fraud	<ul style="list-style-type: none"> • Documented controls and procedures • Anti-fraud administration procedures • Authorisation limits and segregation of duties • Employee screening
Human Resources	<ul style="list-style-type: none"> • Documented controls and procedures • HR Policies and monitoring • Training programme for Management and Staff
Finance and Accounting Errors	<ul style="list-style-type: none"> • Documented controls and procedures • Accounting Policy • Authority Limits • Oversight by Internal Audit
Compliance and Legal	<ul style="list-style-type: none"> • Documented controls and procedures • Compliance Plan • Risk Committee oversight and reporting • Approval limits • Contracts approval procedure
Systems Risks	Mitigating Activities / Tools
Technology	<ul style="list-style-type: none"> • Documented controls and procedures • Fall-back suppliers/Service Providers for persistent failed delivery • Disaster Review/Recovery Processes
Systems and information Security	<ul style="list-style-type: none"> • Information Security policies and monitoring • Business Continuity Plan
External Risks	Mitigating Activities / Tools
External Party-induced BCP Failure	<ul style="list-style-type: none"> • Systems Security Checks • Rigorous Business Continuity/Disaster Recovery Plan

External Risks	Mitigating Activities / Tools
	<ul style="list-style-type: none"> Office Premises Security Checks
Failure of Outsourcing Arrangements	<ul style="list-style-type: none"> Service-level agreements Outsourcing approval and monitoring procedures
Loss of key distribution relationships	<ul style="list-style-type: none"> Proactive management of Third-party relationship issues Proactive sourcing of alternative distribution relationships
Changes in Regulatory Framework	<ul style="list-style-type: none"> Legal and Compliance monitoring procedures Regular review of regulatory environment

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

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

The pandemic has meant that many of the Company’s staff have been working from home for much of 2021. The transition to working remotely was made effectively. Robust IT systems and enhanced levels of communication from management have ensured that there have been no failures of processes or controls as a result of this. Staff are now back working from the office under the Company’s new hybrid working arrangements.

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

C.5.2 Material Risk Concentrations.

The Group has no particular operational risk concentrations

C.5.3 Material Risk Mitigation

See table above

C.5.4 Sensitivity Analysis

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

C.5.5 Other Material Risks

None

C.6 Any other information

There are no other significant risk concentrations for the Group.

C.7 Stress and Scenario Testing

Stress and scenario testing are facilitated at least annually by the Risk Management Function and contemplates risks to which the business may become exposed to in the future. Stress and scenario testing involves projection of the plan, under extreme but plausible risk conditions, to identify potential management actions and inform the business strategy. Investigation of different scenarios identifies how perceived risks are likely to impact the strategy and supports proactive risk management.

Stress and scenario testing identifies how, with the business model under stress, policyholder security is assured and encourages continuous improvement, to evolve financial and operational resilience, in view of emerging risks. Analysis of external and internal events to develop/inform scenarios for analysis are identified by the Risk and Control Owners, SLT, ERC, Board and Risk Management Function amongst others.

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

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

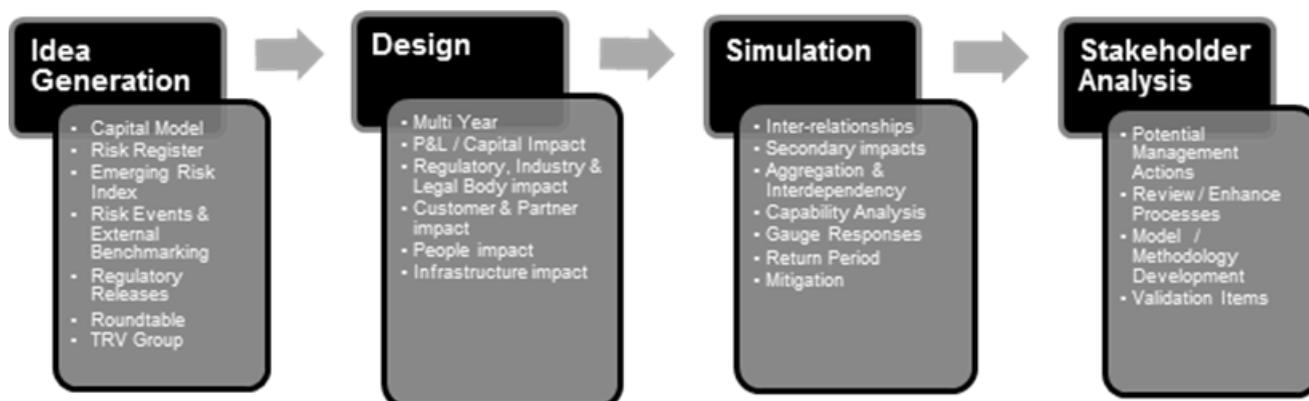


Figure A: Overview of the Stress and Scenario Methodology

Specific objectives relating to stress and scenario testing are to:

- explore the potential causes of total business model failure i.e. reverse stress testing;
- further understand the types of scenario and the extent of stress required to result in a breach of capital requirements;
- awareness of the impact on capital requirements and the position against risk tolerance and/or appetite under various stressed conditions;
- understand the impact on the ability to meet key targets under various stressed conditions; and
- analyse ORSA outputs, particularly in relation to the capital and solvency position under stressed conditions.

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

Overview of the Methodology

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

- I. Scenarios where Risk Appetite is exceeded;
- II. Scenarios where capital limits (risk tolerance) is exceeded;
- III. Reverse Scenarios that cause business failure (reverse stress tests); and
- IV. Stressing of capital modelling parameters.

Appetite and Capital Scenario Analysis

The Risk Strategy defines the Risk Appetite and reflects the level and nature of risks that the Board considers acceptable for it to seek, accept or transfer in pursuit of strategic objectives. The Risk Appetite sets specific thresholds that are in the Group's tolerance level and this is monitored on an ongoing basis. The list of stress and scenario tests are reviewed frequently to identify new scenarios or stresses required and how to recalculate historic scenarios.

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

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

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

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

Quantitative Assessment

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

Qualitative Assessment

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

D Valuation for Solvency Purposes

D.1 Assets

The Group's assets on a Solvency II and UK GAAP basis as at 31 December 2021 and 31 December 2020 were as set out below:

31 December 2021	Solvency II basis	UK GAAP basis	Difference
	£'m	£'m	£'m
Deferred Tax Asset	32.5	29.7	2.8
Other Financial Investments	1,426.3	1,416.1	10.2
Reinsurance recoverables	99.5	146.2	(46.7)
Insurance and intermediaries receivables	17.6	117.6	(100.0)
Reinsurance receivables	2.2	2.9	(0.7)
Receivables (trade, not insurance)	3.1	2.6	0.5
Cash and cash equivalents	90.6	90.6	-
Accrued interest	-	10.2	(10.2)
Deferred acquisition costs	-	28.5	(28.5)
Total Assets	1,671.8	1,844.4	(172.6)

31 December 2020	Solvency II basis	UK GAAP basis	Difference
	£'m	£'m	£'m
Deferred Tax Asset	28.9	24.3	4.6
Other Financial Investments	1,265.0	1,254.9	10.1
Reinsurance recoverables	117.4	152.1	(34.7)
Insurance and intermediaries receivables	9.1	98.8	(89.7)
Reinsurance receivables	1.3	2.6	(1.3)
Receivables (trade, not insurance)	1.7	1.7	-
Cash and cash equivalents	92.3	92.3	-
Accrued interest	-	10.1	(10.1)
Deferred acquisition costs	-	24.5	(24.5)
Total Assets	1,515.7	1,661.3	(145.6)

The starting point for the valuation of assets and liabilities is UK GAAP. The Group's assets are recognised and valued under Solvency II using the following principles:

Deferred acquisition costs

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

Deferred tax asset

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

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

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

Other Financial Investments

The Group classifies its financial investments as “available for sale” and carries those investments at fair value, with unrealised gains and losses being reported through Other Comprehensive Income on a UK GAAP FRS 102 basis. Where quoted market prices in active markets are not available, the Company uses a pricing service to determine an estimate of fair value based on recent transactions in identical assets. All of the Group’s investments fall into this category. The difference in the Solvency II valuation basis compared to UK GAAP is that on a Solvency II basis the value of investments includes accrued interest.

Reinsurance recoverables

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

Insurance and intermediaries receivables

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

Reinsurance receivables/Receivables (trade, not insurance)

On a Solvency II basis, only reinsurance receivables that are outstanding past their credit terms are shown as a separate asset on the balance sheet. All other reinsurance receivables are reported as a component of technical provisions. Reinsurance receivables are stated net of an impairment provision and are recorded at book value as a reasonable proxy for economic value, as all amounts are expected to be received within six months.

There is no difference in the valuation of receivables (trade, not insurance) on a UK GAAP and Solvency II basis. Receivables (trade, not insurance) are recorded at book value as a reasonable proxy for economic value, as all amounts are expected to be received within six months.

Cash and cash equivalents

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

Accrued Interest

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

D.2 Technical Provisions

Gross technical provisions for the Group as at 31 December 2021 and 2020 were as set out below:

	2021	2020
	£ 'm	£ 'm
Best estimate	1,037.3	951.1
Risk margin	69.2	53.7
Total gross technical provisions	1,106.5	1,004.8

The most material class is General Liability which comprises 71% (2020: 69%) of the total gross best estimate as follows:

General Liability	2021	2020
	£'m	£'m
Gross best estimate	732.8	660.8
Risk margin	47.8	37.1
Total gross technical provisions	780.6	697.9
Reinsurance best estimate	(50.4)	(59.0)
Total net technical provisions	730.2	638.9

The gross technical provisions best estimate represents the best estimate of the ultimate cost of settling claims that will arise from all contracts written as at the balance sheet date, including those that are bound but not yet incepted. In addition to the inherent uncertainty of having to forecast the ultimate costs of those claims that have occurred but not yet been advised as at the balance sheet date and the eventual final costs of the claims that have been reported by the balance sheet date but which remain unsettled, there is considerable uncertainty of forecasting those claims that will arise on exposures written that extend beyond the balance sheet date. As a consequence of these uncertainties, the Group has to apply sophisticated estimation techniques to determine the appropriate level of claims provisions. In overview, claims provisions are determined based upon prior claims experience, knowledge of market conditions and trends, and the terms and conditions of the underlying policies of insurance. A variety of different statistical techniques are used by the 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; and
- Bornhuetter Ferguson method, which combines use of expected loss ratios, for the recent and underdeveloped accident years, and the chain ladder projection of incurred claims data for earlier years.

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

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

The risk margin is an addition to the best estimate liabilities. The risk margin is an estimate of the cost of providing the capital necessary to support the run-off to expiry of the underlying insurance liabilities. The Group uses the full calculation as the basis for calculating the risk margin. This involves taking the Standard Formula SCR and projecting it:

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

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

To allow for business that is contractually bound but not incepted at the balance sheet date the Group uses assumptions as to binding date, together with data from the latest business plan. For reinsurance we assume a future management action will be to purchase reinsurance cover, similar to the protection offered by current reinsurance treaties, to provide ongoing protection for any unexpired gross exposures. An additional expense provision is calculated to cover the cost of administering the policies and settling the claims in respect of unearned premiums and bound but not incepted policies. For Events Not in Data we use an assumption-based approach which has been benchmarked against the market. There has been no change to the basis of calculating technical provisions in 2021 relative to the prior year. This calculation approach is applied to all Solvency II classes.

On a Solvency II basis the Group's gross technical provisions as at 31 December 2021 were £1,106.5m (2020: £1,004.8m). On a UK GAAP basis gross technical provisions were £1,223.6m (2020: £1,090.5m). A reconciliation of the UK GAAP reserves to the Solvency II reserves for the Company on a gross and net basis, itemising the key items in reconciliation, for both 2021 and 2020 is set out below:

As at 31 December 2021	Gross	RI	Net
	£'m	£'m	£'m
UK GAAP reserves	1,223.6	146.2	1,077.4
Removal of margin	(24.7)	-	(24.7)
Removal of UPR reserve	(257.7)	(30.7)	(227.0)
Future Premium	(135.7)	(34.5)	(101.2)
Discounting	(23.9)	(3.3)	(20.6)
Claims on unearned/un-incepted business	168.0	19.8	148.2
Commissions on un-incepted business	5.3	-	5.3
Risk Margin	69.2	-	69.2
Additional expenses	45.7	-	45.7
Reinsurance bad debt	-	(2.0)	(2.0)
Events not in data	36.7	4.0	32.7
Solvency II Technical Provisions	1,106.5	99.5	1,007.0

As at 31 December 2020	Gross	RI	Net
	£'m	£'m	£'m
UK GAAP reserves	1090.5	152.1	938.4
Removal of margin	(24.4)	0.0	24.4
Removal of UPR reserve	(219.8)	(25.1)	(194.7)
Future Premium	(111.5)	(30.2)	(81.3)
Discounting	(0.5)	(0.7)	0.3
Claims on unearned/un-incepted business	139.0	18.7	120.3
Commissions on un-incepted business	3.2	0.0	3.2
Risk Margin	53.8	0.0	53.8
Additional expenses	41.8	0.0	41.8
Reinsurance debtors	0.0	0.0	0.0
Reinsurance bad debt	0.0	(1.8)	(1.8)
Events not in data	32.6	4.4	28.2
Solvency II Technical Provisions	1,004.8	117.4	887.4

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

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

The Group has not applied the matching adjustment referred to in Article 77b of Directive 2009/138/EC,

nor has it used the volatility adjustment referred to in Article 77d of Directive 2009/138/EC, nor the transitional risk-free interest rate term structure referred to in Article 308c of Directive 2009/138/EC, nor the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

Reinsurance recoverables were £99.5m (2020: £117.4m). Reinsurance recoverables relate to current and expected claims recoveries from reinsurers in respect of all contracts written, including those bound but not incepted, at the balance sheet date, offset by payments due to reinsurers re premiums and reinstatement premiums.

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

D.3 Other Liabilities

The Group's other liabilities as at 31 December 2021 and 31 December 2020 on a Solvency II and UK GAAP basis were as follows:

31 December 2021	Solvency II basis	UK GAAP Basis	Difference
	£'m	£'m	£'m
Insurance and intermediaries Payables	1.4	20.8	(19.4)
Reinsurance payables	-	20.9	(20.9)
Payables, (trade not insurance)	16.0	16.0	-
Any other liabilities, not elsewhere Shown	-	3.4	(3.4)
Total Other Liabilities	17.4	61.1	(43.7)

31 December 2020	Solvency II basis	UK GAAP Basis	Difference
	£'m	£'m	£'m
Insurance and intermediaries Payables	0.5	19.8	(19.3)
Reinsurance payables	-	16.5	(16.5)
Payables, (trade not insurance)	17.9	18.1	(0.2)
Any other liabilities, not elsewhere Shown	-	2.2	(2.2)
Total Other Liabilities	18.4	56.6	(38.2)

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

31 December 2021	Solvency II basis	UK GAAP basis	Difference
	£'m	£'m	£'m
Reinsurers' share of deferred acquisition costs	-	3.4	(3.4)
Total	-	3.4	(3.4)
31 December 2020	Solvency II basis	UK GAAP basis	Difference
	£'m	£'m	£'m
Reinsurers' share of deferred acquisition costs	-	2.2	(2.2)
Total	-	2.2	(2.2)

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

Insurance and Intermediaries payables

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

Reinsurance payables

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

Payables (trade, not insurance)

Payables comprise amounts payable to other Travelers group entities and corporation tax payable. The difference between the valuation on a Solvency II and UK GAAP basis relates to the component of Intercompany balances that relates to intercompany reinsurances and which gets reclassified as technical provisions for Solvency II purposes. They are recorded at book value as a reasonable proxy for economic value, as all amounts are expected to be paid within six months.

Reinsurers' share of deferred acquisition costs

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

Accruals

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

D.4 Alternative methods for valuation

None

D.5 Any Other Information

The Group has prepared the Solvency and Financial Condition Report on the going concern basis. The Directors have assessed the suitability of using the Going Concern assumption in preparing this SFCR. In making this assessment they have looked forward for a period of twelve months from the date that this SFCR is signed. There are no dates after this period that are material to the assessment of going concern. The Group does not have any external debt nor is it dependent on any banking facilities. The Directors have prepared this SFCR on the going concern basis. In doing so the Directors considered the latest three year business plan, the likely trading environment and the financial strength of the parent company, The Travelers Companies, Inc. The Directors concluded that it remained appropriate to continue to prepare the Group's financial statements and SFCR using the Going Concern assumption.

E Capital Management

E.1 Own Funds

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

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

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

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

The Group's Own Funds are comprised principally of Tier 1 capital, which in turn is composed of share capital, share premium and a reconciliation reserve. There are no anticipated dividends over the foreseeable future. There is a small element of tier 3 capital that relates wholly to a deferred tax asset in respect of tax loss carry forwards.

The Group's Basic Own Funds by type and tier at 31 December 2021 and 31 December 2020 were:

31 December 2021	Tier 1	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m
Share capital	306.0	-	-	306.0
Share premium	0.7	-	-	0.7
Deferred tax asset	-	-	32.5	32.5
Reconciliation reserve	189.4	-	-	189.4
Total Basic Own Funds	496.1	-	32.5	528.6

31 December 2020	Tier 1	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m
Share capital	267.0	-	-	267.0
Share premium	0.7	-	-	0.7
Deferred tax asset	-	-	28.9	28.9
Reconciliation reserve	112.5	-	-	112.6
Total Basic Own Funds	380.2	-	28.9	409.1

There is no restriction in the amount of Own Funds in either tier that is eligible to meet the Group's SCR. All Tier 1 Own Funds are eligible to cover the Group's MCR. During the year the Company received a capital injection from its shareholder of £39m in return for the issuance of 39 million £1 ordinary shares.

A comparison of the excess of assets over liabilities as calculated for Solvency II purposes and equity as shown in the Group's UK GAAP financial statements as at 31 December 2021 and 2020 is set out below:

	31 December 2021	31 December 2020
	£'m	£'m
Equity on a UK GAAP basis	559.6	514.3
Equity on a Solvency II basis	547.9	492.6
Difference	11.7	21.7

In both years Shareholders' funds on a UK GAAP basis are higher than the excess of assets over liabilities on a Solvency II basis. This is because the benefit under Solvency II of removing the margin, discounting and recognising profit on unearned premiums is less than the incremental costs of the additional provisions carried under Solvency II for the risk margin, future expenses and events not in data.

A detailed reconciliation as at 31 December 2021 and 2020 is set out below for the Group:

	31 December 2021	31 December 2020
		£'m
Equity per UK GAAP	559.6	514.3
Reserve margin removal	24.7	24.4
Discounting	20.6	0.5
Events not in data	(32.7)	(32.6)
Additional expenses	(22.9)	(22.1)
Risk Margin	(69.2)	(53.8)
Profit recognised on unearned premiums	65.0	57.3
Deferred tax on UK GAAP to SII adjustments	2.8	4.6
Excess of assets over liabilities in Solvency II	547.9	492.6

No Own Funds item for the Group are subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of the Directive. The Group has no Ancillary Own Funds.

As at 31 December 2021 the Group had pledged £20.0m (2020: £83.4m) of its Own Funds as collateral to Lloyd's. This is in support of the capital requirements of the TRV's wholly aligned Lloyd's syndicate, Syndicate 5000. This constitutes a ring-fenced fund and a restricted own funds item. An amount of £19.3m (2020: £80.5m) has thus been deducted from Basic Own Funds which is the amount of assets pledged to support the Group's wholly aligned Lloyd's Syndicate, net of an SCR in respect of these assets of £0.7m (2020: £2.9m).

As at 31 December 2021 the Group has pledged £4.0m (2020 : £4.0m) of assets in trust with the National Association of Insurance Commissioners in the US (**NAIC**), as a condition of authorisation to write insurance business on a surplus lines basis in the US. This constituted a ring-fenced fund and a restricted own funds item in 2020, but due to the growth of the book in the US, not in 2021. An amount of £Nil m (2020: £ 3m) has thus been deducted from Basic Own Funds, which is the amount of assets placed into trust with the NAIC, net of an SCR in respect of these assets of £Nil m (2020: £1.0m).

A reconciliation of the excess of assets over liabilities to the reconciliation reserve at 31 December 2021 and 2020 is set out below:

	31 December 2021	31 December 2020
	£'m	£'m
Excess of assets over liabilities	547.9	492.6
Less Share capital and share premium	(306.7)	(267.7)
Less Deferred tax asset	(32.5)	(28.9)
Less Restricted own funds re ring fenced funds	(19.3)	(83.4)
Reconciliation reserve	189.4	112.6

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Group uses the Standard Formula to calculate its Solvency Capital Requirement (**SCR**) and Minimum Capital Requirement (**MCR**). The Group does not use any Undertaking Specific Parameters. The amount of the Group's MCR and SCR as at 31 December 2021 were £142.0m (2020: £122.4m) and £441.3m (2020: £370.5m) respectively. The SCR by risk module as at 31 December 2021 and 2020 was as set out below:

SCR Component	31 December 2021	31 December 2020
	£'m	£'m
Non-Life Underwriting	382.5	319.1
Life Underwriting	0.7	0.8
Market Risk	60.3	47.3
Counterparty Default Risk	15.3	10.4
Undiversified Basic SCR	458.8	377.6
Diversification credit	(49.0)	(38.1)
Basic SCR	409.8	339.5
Operational risk	31.0	28.5
Adjustment due to RFF aggregation	0.5	2.5
Solvency Capital Requirement	441.3	370.5

The Group has not been required to use any Undertaking Specific Parameters or to make any capital add-on by the supervisory authority. In calculating the SCR using the Standard Formula, the Group has used simplified calculations for the Non-Life Underwriting risk, Market risk and Counterparty Default Risk modules, and within Market risk for the Spread risk and Interest Rate risk sub-modules.

The Group MCR is calculated by aggregating the solo entity MCRs of TICL and TIDAC. As at 31 December

2021 the MCR for the Group has been set at £142.0m (2020: £122.4m).

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

The increase in the SCR and the MCR during the year for the Group is largely driven by the increased premium volumes written and the consequent increase in technical provisions year on year.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

As the Group does not write life insurance business it does not make use of the duration-based equity risk sub-module to calculate its SCR.

E.4 Differences between the Standard Formula and any Internal Models Used

Not Applicable

E.5 Non-Compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Group has remained in compliance with its MCR and SCR throughout the year and through the period since the end of the financial year.

The Group's position relative to its capital requirements as at 31 December 2021 and 31 December 2020 was as set out below:

31 December 2021	MCR	SCR
	£'m	£'m
Capital Requirement	142.0	441.3
Eligible Own Funds	496.0	528.6
Surplus	354.0	87.3
Coverage	349.3%	119.8%

31 December 2020	MCR	SCR
	£'m	£'m
Capital Requirement	122.4	370.5
Eligible Own Funds	380.2	409.2
Surplus	257.8	38.7
Coverage	310.6%	110.4%

E.6 Any other information

None

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

Travelers Insurance Company Limited

Financial Year ending 31 December 2021

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

We are satisfied that:

- a) throughout the financial year in question, the Group has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in the future.

Matthew Wilson

Director and Chief Executive Officer



19 May 2022

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

Report on the Audit of the relevant elements of the Single Group-Wide Solvency and Financial

Condition Report Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2021:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2021, ('the Narrative Disclosures subject to audit'); and
- Group Templates S.02.01.02, S.23.01.22, S.25.01.22 and S.32.01.22 ('the Group Templates subject to audit')

The Narrative Disclosures subject to audit, the Group Templates subject to audit and the Company Templates subject to audit are collectively referred to as the '**relevant elements of the Single Group-Wide Solvency and Financial Condition Report**'.

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

- Information contained within the relevant elements of the Single Group-Wide Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary,' 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group- Wide Solvency and Financial Condition Report;
- Group Templates S.05.01.02, and S.05.02.01;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report ('the Responsibility Statement').

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

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2021 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals.

Basis for Opinion

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

Emphasis of Matter - Basis of Accounting

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

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting in the preparation of the Single Group-Wide Solvency and Financial Condition Report included:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the company's ability to continue as a going concern;
- Obtaining an understanding of the process relating to the directors' going concern assessment;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the company's future financial performance
- Challenging the appropriateness of the directors' key assumptions in their future performance forecasts, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios; and
- Assessing the historical accuracy of forecasts prepared by the directors;

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the Single Group-Wide Solvency and Financial Condition Report is authorised for issue.

In auditing the relevant elements of the Single Group- Wide Solvency and Financial Condition Report, we have concluded that the directors of the Company's use of the going concern basis of accounting in the preparation of the relevant elements of the Single Group- Wide Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Single Group-Wide Solvency and Financial Condition Report does not cover the Other Information and, accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the Single Group-Wide Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Single Group-Wide Solvency

and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Single Group-Wide Solvency and Financial Condition Report

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

The Directors are also responsible for:

- such internal control as management determines is necessary to enable the preparation of a Single Group-Wide Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error;
- overseeing the Group's financial reporting process; and,
- assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group Companies or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Single Group-Wide Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Group and the insurance sector in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the PRA's and the Financial Conduct Authority's ("FCA") regulations, and we considered the extent to which non-compliance might have a material effect on the relevant elements of the Single Group-Wide Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the preparation of relevant elements of the Single Group-Wide Solvency and Financial Condition Report such as the Solvency II regulations.

We evaluated the directors' and management's incentives and opportunities for fraud or error

manipulation of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report (including the risk of override of controls) and determined that the principal risks were related to posting manual entries to manipulate own funds against the Solvency Capital Requirement or

Minimum Capital Requirement; management bias through judgements and assumptions in significant estimates, in particular in relation the valuation of technical provisions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the relevant elements of the Single Group-Wide Solvency Financial Condition Report. Our audit procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considering the risk of acts by the Group which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Group is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including the PRA and FCA;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance.
- Considering the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud Our audit

procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Critically assessing accounting estimates for evidence of management bias, particularly in relation to the estimation of technical provisions.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with the management. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Single Group-Wide Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional omissions, misrepresentations, or through collusion and override of internal controls.

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

Report on Other Legal and Regulatory Requirements.

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

Use of the audit report

This report, including the opinion, has been prepared for the Directors of the Company to enable them to comply with their obligations under External Audit Rule 2.1 of the Solvency II Firms Sector of the PRA Rulebook and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors for our audit work, for this report, or for the opinions we have formed.



Andrew Heffron (May 19, 2022 16:46 GMT+1)

Mazars LLP

30 Old

Bailey

London

EC4M 7AU

Date: 19 May 2022

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

The relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit comprise:

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

Appendix A: Quantitative Reporting Templates

General information

Participating undertaking name	Travelers Insurance Company Limited
Group identification code	5493008G0BNFHVUJ0Q27
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2021
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.05.02.01 - Premiums, claims and expenses by country
- S.23.01.22 - Own Funds
- S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula
- S.32.01.22 - Undertakings in the scope of the group

S.02.01.02
Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	
R0040	Deferred tax assets	32,491
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,426,258
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	1,426,258
R0140	<i>Government Bonds</i>	406,414
R0150	<i>Corporate Bonds</i>	1,019,844
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	0
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	99,533
R0280	<i>Non-life and health similar to non-life</i>	99,533
R0290	<i>Non-life excluding health</i>	99,533
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	17,603
R0370	Reinsurance receivables	2,258
R0380	Receivables (trade, not insurance)	3,069
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	90,586
R0420	Any other assets, not elsewhere shown	
R0500	Total assets	1,671,798

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	1,101,405
R0520	<i>Technical provisions - non-life (excluding health)</i>	1,101,405
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	1,032,648
R0550	<i>Risk margin</i>	68,757
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	5,089
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	5,089
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	4,666
R0680	<i>Risk margin</i>	423
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	1,383
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	16,034
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	1,123,911
R1000	Excess of assets over liabilities	547,887

5.05.01.02

Premiums, claims and expenses by line of business

Non-life

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																
R0110	Gross - Direct Business		15,078	11,122	19,467	170,464	258,633	5,957			2,263					482,984
R0120	Gross - Proportional reinsurance accepted		67	30	176	3,403	2,829	0			0					6,505
R0130	Gross - Non-proportional reinsurance accepted													2,232	6,401	8,633
R0140	Reinsurers' share		2,641	812	3,936	49,677	9,651	5,957			137			316	2,905	76,032
R0200	Net		12,504	10,340	15,707	124,190	251,811	0			2,126			1,916	3,496	422,090
Premiums earned																
R0210	Gross - Direct Business		15,715	10,587	23,504	156,372	233,431	4,530			586					444,725
R0220	Gross - Proportional reinsurance accepted		67	32	124	3,270	2,796	0			0					6,289
R0230	Gross - Non-proportional reinsurance accepted													2,086	5,736	7,822
R0240	Reinsurers' share		2,540	738	3,910	46,680	8,899	4,530			170			215	2,776	70,458
R0300	Net		13,242	9,881	19,718	112,962	227,328	0			416			1,871	2,960	388,378
Claims incurred																
R0310	Gross - Direct Business		445	4,995	12,497	55,920	137,192	-474			5					210,580
R0320	Gross - Proportional reinsurance accepted		-10	3	108	576	7,391	5			18					8,091
R0330	Gross - Non-proportional reinsurance accepted													984	-396	588
R0340	Reinsurers' share		814	-19	2,982	2,338	-8,064	-476			-107			185	-112	-2,459
R0400	Net		-379	5,017	9,623	54,158	152,647	7			130			799	-284	221,718
Changes in other technical provisions																
R0410	Gross - Direct Business															0
R0420	Gross - Proportional reinsurance accepted															0
R0430	Gross - Non-proportional reinsurance accepted															0
R0440	Reinsurers' share															0
R0500	Net		0	0	0	0	0	0			0			0	0	0
R0550	Expenses incurred		4,701	3,887	8,397	52,475	66,914	-533			152			471	440	136,904
R1200	Other expenses															
R1300	Total expenses															136,904

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Premiums, claims and expenses by line of business

Life

Line of Business for: life insurance obligations						Life reinsurance obligations		Total
Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written								
R1410	Gross							0
R1420	Reinsurers' share							0
R1500	Net				0		0	0
Premiums earned								
R1510	Gross							0
R1520	Reinsurers' share							0
R1600	Net				0		0	0
Claims incurred								
R1610	Gross				1,700			1,700
R1620	Reinsurers' share							0
R1700	Net				1,700		0	1,700
Changes in other technical provisions								
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net				0		0	0
R1900	Expenses incurred				0		0	0
R2500	Other expenses							
R2600	Total expenses							0

S.05.02.01

Premiums, claims and expenses by country

Non-life

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010		IE					
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
R0110	Gross - Direct Business	422,926	60,058				482,984
R0120	Gross - Proportional reinsurance accepted	6,341	164				6,505
R0130	Gross - Non-proportional reinsurance accepted	0	0				0
R0140	Reinsurers' share	64,931	7,880				72,811
R0200	Net	364,336	52,342				416,678
Premiums earned							
R0210	Gross - Direct Business	390,184	54,541				444,725
R0220	Gross - Proportional reinsurance accepted	6,107	182				6,289
R0230	Gross - Non-proportional reinsurance accepted	0	0				0
R0240	Reinsurers' share	60,764	6,702				67,466
R0300	Net	335,527	48,021				383,548
Claims incurred							
R0310	Gross - Direct Business	179,760	30,821				210,581
R0320	Gross - Proportional reinsurance accepted	8,087	0				8,087
R0330	Gross - Non-proportional reinsurance accepted	0	0				0
R0340	Reinsurers' share	-4,914	2,387				-2,527
R0400	Net	192,761	28,434				221,195
Changes in other technical provisions							
R0410	Gross - Direct Business						0
R0420	Gross - Proportional reinsurance accepted						0
R0430	Gross - Non-proportional reinsurance accepted						0
R0440	Reinsurers' share						0
R0500	Net	0	0				0
R0550	Expenses incurred	110,508	24,889				135,397
R1200	Other expenses						
R1300	Total expenses						135,397

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Premiums, claims and expenses by country

Life

	C0150	C0160	C0170	C0180	C0190	C0200	C0210
	Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400	C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written							
R1410	Gross						0
R1420	Reinsurers' share						0
R1500	Net	0					0
Premiums earned							
R1510	Gross						0
R1520	Reinsurers' share						0
R1600	Net	0					0
Claims incurred							
R1610	Gross	1,700					1,700
R1620	Reinsurers' share						0
R1700	Net	1,700					1,700
Changes in other technical provisions							
R1710	Gross						0
R1720	Reinsurers' share						0
R1800	Net	0					0
R1900	Expenses incurred						0
R2500	Other expenses						
R2600	Total expenses						0

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Own Funds

Basic own funds before deduction for participations in other financial sector

Own funds when using the D&A, exclusively or in combination of method 1

R0450	Own funds aggregated when using the D&A and combination of method
R0460	Own funds aggregated when using the D&A and combination of method net of IGT
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)
R0530	Total available own funds to meet the minimum consolidated group SCR
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)

R0610	Minimum consolidated Group SCR
R0650	Ratio of Eligible own funds to Minimum Consolidated Group SCR
R0660	Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)
R0680	Group SCR
R0690	Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Forseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0750	Other non available own funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0				
0				
528,632	496,141	0	0	32,491
496,141	496,141	0	0	
528,632	496,141	0	0	32,491
496,141	496,141	0	0	
142,044				
349.29%				
528,632	496,141	0	0	32,491
441,362				
119.77%				
C0060				
547,887				
339,245				
19,255				
189,387				
11,644				
11,644				

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Solvency Capital Requirement - for groups on Standard Formula

R0010 Market risk
R0020 Counterparty default risk
R0030 Life underwriting risk
R0040 Health underwriting risk
R0050 Non-life underwriting risk
R0060 Diversification

R0070 Intangible asset risk

R0100 **Basic Solvency Capital Requirement**

Calculation of Solvency Capital Requirement

R0130 Operational risk
R0140 Loss-absorbing capacity of technical provisions
R0150 Loss-absorbing capacity of deferred taxes
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
R0200 **Solvency Capital Requirement excluding capital add-on**
R0210 Capital add-ons already set
R0220 **Solvency capital requirement for undertakings under consolidated method**

Other information on SCR

R0400 Capital requirement for duration-based equity risk sub-module
R0410 Total amount of Notional Solvency Capital Requirements for remaining part
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
R0440 Diversification effects due to RFF nSCR aggregation for article 304
R0470 Minimum consolidated group solvency capital requirement

Information on other entities

R0500 Capital requirement for other financial sectors (Non-insurance capital requirements)
Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies
R0520 *Institutions for occupational retirement provisions*
R0530 *Capital requirement for non-regulated entities carrying out financial activities*
R0540 Capital requirement for non-controlled participation requirements
R0550 Capital requirement for residual undertakings

Overall SCR

R0560 SCR for undertakings included via D&A
R0570 **Solvency capital requirement**

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
60,426		
15,268		
795		
0		
382,892		
-49,019		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross

C0100
31,000
0
0
0
441,362
0
441,362

0
440,553
810
0
0
142,044

0
441,362

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Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	
1	IE	54930061WB0LWBC0QW96	LEI	Travelers Insurance Designated Activity Company	Non life insurance undertaking	Limited by shares	Non-mutual	Central Bank of Ireland
2	GB	5493008G0BNFHVUJQ27	LEI	Travelers Insurance Company Limited	Non life insurance undertaking	Limited by shares	Non-mutual	Prudential Regulation Authority

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Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
			% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	

Row	C0010	C0020	C0030	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	IE	54930061WB0LWBCOQW96	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
	GB	5493008G0BNFHVUJ0Q27	LEI							Included in the scope		Method 1: Full consolidation

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