Report – July 2018

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Talisman Underwriting Plc
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1. Introduction

The Lloyd's insurance market experienced a difficult year in 2017 due to the cost of hurricanes Harvey, Irma and Maria, together with the devastating wildfires in California, the earthquake in Mexico and other events that demonstrated the precarious nature of the world today. These events occurred at a time when trading conditions were generally poor. Although the overall cost of losses to the global insurance market will be similar to those of 2005 and 2011, the impact on the bottom line will be greater.

Talisman was profitable and paid a dividend for both of those years, but a loss for the 2017 year of account of between 2.6% and 11.6% of capacity is forecast. The final result is expected to be towards the better end of the range but it will be Talisman's first loss since the tragic events of 2001. It should not be forgotten that the 2017 year of account will not close until 31 December 2019 and many policies still remain on risk.

Fortunately we are able to report that the 2015 underwriting year of account, which closed at 31 December 2017, has produced a pure profit of 9.9% on capacity which is at the top end of the range forecast 12 months ago and a considerable margin over the Lloyd's market as a whole.

The 2016 underwriting year of account is affected by losses occurring in 2017 but attaching to policies incepting in the 2016 year. Despite these events the forecast for the year is similar to that reported on 12 months ago of between a loss of 3.1% and a profit 3.8% with a midpoint profit 0.35%. We would expect Talisman's final result to be towards the better end of the range.

It has been well reported in recent years that trading conditions were softening, due to the relatively low level of catastrophe losses, coupled with a surplus of available capital attracted to the insurance industry by its above average rate of return, when measured against historically low interest rates.

We are now focused on the future and although rates are improving in loss affected areas, the Market is yet to see the level of increases we would like for other risks and in other areas. Unfortunately there remains a surplus of capital still looking for the returns that it believes the insurance market has and will continue to provide.

Syndicate selection is more important than ever and Talisman's portfolio for 2018 is of a perceived higher quality and lower risk than for 2017. Insurance is a risk business and we have to consider the impact on Talisman should 2018 experience a similar level of catastrophes to the previous year.

In order to meet the capital requirements mandated by Lloyd's, Talisman had to increase the company's Funds at Lloyd's by over £2m last November. This was achieved by using the profits from the 2014 underwriting year of account that otherwise would have been distributed in December 2017 as a dividend and by the use of "reserve capital" that we maintain to cover such circumstances in order to help ensure that Talisman remains "in line" and solvent.

The part 2014 account dividend deferred from December 2017 was paid on 11 July 2018. It is intended that the dividend for the 2015 underwriting year of account will be paid in two instalments during December 2018 and July 2019.

Lloyd's global results are published on a calendar year basis and reported a loss of £2bn for 2017 against a profit for 2016 of £2.1bn. The combined ratio increased to 114% from 97.9%

primarily driven by the major claims activity in the year. However the underlying results show signs of stress.

Lloyd's, through the performance management division, has made it quite clear that the result is not acceptable and action needs to be taken by managing agents to close the performance gap and demonstrate a realistic route to sustainable profits. The business plans produced by managing agents for their syndicates for 2019 must be credible. Focus will be on underwriting performance and expense ratio improvements. There will be a further review of the worst performing classes of business that are affecting the overall result for Lloyd's.

These comments are very general although they are directed at every syndicate at Lloyd's, of which there are 99 in total. In 2018 Talisman is supporting just 16 syndicates and, of those, 79% of its underwriting is allocated to just 7. As we have stated above, syndicate selection is paramount. There is a considerable difference between the performance of the top and bottom quartile of syndicates and our sights are clearly on those at the top. Nonetheless all managing agents need to respond and adapt to the trading conditions that exist in the world today. Tough decisions have to be made and unprofitable business eradicated to ensure the long-term health of Lloyd's and the wider London market.

To add further emphasis, Anna Sweeney, Director of Insurance Supervision at the Prudential Regulation Authority (PRA), recently wrote to all Chief Executives of specialist general insurance firms regulated by the PRA, which includes all Lloyd's managing agents, stating that the Boards of all firms may now benefit from re-assessing whether their business models remain sustainable in the absence of further action and whether controls over underwriting of specialist lines are adequate. One of the benefits of today's world is the amount of data that is available to use in pricing and reserving models and for exposure management.

It is easy to take false comfort from the fact that the natural catastrophe losses in 2017 were largely manageable within the insurance industry from a financial perspective. However in some cases loss numbers, whilst apparently in line with expectations, in reality contained significant non-modelled elements. Insurers would be foolish if they did not consider what lessons could be learned from the events in 2017 and the potential impact of more adverse scenarios. From our perspective it is good that the PRA has written in this manner. These are comments applicable to specialist insurance businesses as whole and not directly to those syndicates that we support. However if businesses respond correctly, the fortunes for all should improve.

Brexit and Lloyd's Europe

Lloyd's continues to push for an agreement between the UK and the EU which will allow Lloyd's to continue to do business on the continent as at present. However it is equally preparing for an outcome which does not permit this and has made plans accordingly.

Lloyd's has now received regulatory approval from the National Bank of Belgium for its new European Economic Area (EEA) subsidiary in Brussels and has installed chief commercial officer Vincent Vandendael as the unit's first CEO. The establishment of the Lloyd's subsidiary in Brussels will provide access to Lloyd's for brokers and clients after the UK leaves the EU for non-life risks. The new subsidiary expects to reinsure 100 percent of the risk back to London.

Ruffer Annual Performance Report 2017

A part of Talisman's Funds at Lloyd's (£2.5m at 31 December 2017) is managed by Ruffer and their report is given below. Underwriting at Lloyd's is a risk business and their protective stance matches our risk appetite.

Ruffer Annual Performance Report 2017

At Ruffer our focus is on delivering consistent positive returns, regardless of how financial markets perform. The Talisman Underwriting's portfolio is managed in line with this single focus, with the dual investment aims to (1) not to lose money in any 12 month (2) to grow the value of the company's assets over the long run.

In reviewing 2017, it is first appropriate to observe that both the thinking and the portfolio's asset allocation have not changed significantly from 2016, when the same portfolio structure achieved a strong risk-adjusted return (+14%). Indeed, it would be wrong to conclude that our unremarkable return of +1%, resulted from a bland armoury of investments. Instead, there are 2 reasons that best explain how the portfolio performed.

Firstly, our decision to rotate deeper into equities which would benefit from a steeper yield curve (cyclical and financial stocks) at the end of 2016 proved premature. Frustratingly, for the first 9 months of 2017, any evidence of accelerating global growth and subsequent yield curve steepening was counterbalanced by US political concerns and continuing liquidity injections by the European Central Bank and Bank of Japan. The net result being, that it was not until the last quarter of 2017, where the torch of equity market leadership was passed from the bond-proxy equities (which we had been largely ignoring on valuation grounds) to yield curve sensitive equities. This rotation within the equity space was catalysed by improving global trade data, further interest rate rises and the passing of Donald Trump's Tax Reform Bill in the last quarter of the year.

Secondly, we remained of the view that, in terms of the bigger macroeconomic picture, we were witnessing the inflation of another bubble in asset prices, requiring us to invest in protective assets. Consequently, in a year where data for the last 90 years reveals that 2017 was the only year in which US equities actually rose every month (as measured by the S&P 500), these protective investments cost the portfolio performance.

Such a divergence of opinion between the consensus (as expressed by the S&P 500) and ourselves certainly poses a question concerning what factors are steering us towards a gloomier outlook for markets. In short, our answer is that we observe the intertwined problems of global debt outstripping global growth and the consequences of a decade of zero interest rate policy (ZIRP) inflating bubbles across different asset classes; equities, bonds and most recently crypto-currency markets.

Consequently, we felt it appropriate to own a mix of unconventional and traditional protective assets to protect the portfolio. In the unconventional space, we owned protective assets in volatility (VIX) options to guard against a potential fall in equity prices, Payer Swaptions to protect against rising bond yields (falling bond prices) and Credit Default Swaps (CDS) to appreciate in times of corporate bond market stress. Similarly, we also owned more traditional offsets such as index-linked government bonds and gold to protect us from a disruptive rise in inflation and/or a collapse in confidence in fiat currencies.

As we entered 2018, and whilst we recognised that we cannot prepare for every eventuality, we felt that when a 'Minsky Moment' (a period of stability begetting market instability) arrives, our patience with our protective investments would be rewarded. Notwithstanding this, however, we also needed to countenance the possibility that markets might continue to drift higher for some time yet. We therefore maintained a targeted allocation of c. 40% to equities in order to capture any upside in the interim. Our overarching conviction remains, however, that while the lesson of 2017 (and in fact the majority of the post 2008 period) has been that a pure equity mandate is optimal, we think that the opposite will be true of the next period; benefiting this portfolio's unconstrained 'absolute return' approach.

Bertie Dannatt, Ruffer LLP

2. Underwriting Performance

Results for all closed years, recorded as a percentage of capacity, including movements in prior years, underwriting expenses and the members' agent's fee are detailed below. Estimates for 2016 and 2017 are from figures published as at 31 March 2018.

Reporting Date	Year of Account	Talisman Result %	Lloyd's Average Result %
31/12/2000	1998	(5.95)	(10.47)
31/12/2001	1999	(12.43)	(19.78)
31/12/2002	2000	(17.04)	(23.86)
31/12/2003	2001	(15.81)	(21.11)
31/12/2004	2002	11.91	9.01
31/12/2005	2003	20.46	17.11
31/12/2006	2004	11.81	10.94
31/12/2007	2005	4.23	3.00
31/12/2008	2006	25.26	27.57
31/12/2009	2007	18.00	17.56
31/12/2010	2008	8.44	11.00
31/12/2011	2009	17.28	16.65
31/12/2012	2010	3.11	2.29
31/12/2013	2011	6.13	4.02
31/12/2014	2012	10.75	11.92
31/12/2015	2013	12.17	9.24
31/12/2016	2014	12.91	10.86
31/12/2017	2015	9.19	6.30
Estimated 31/3/2018	2016	0.35	(3.53)
Estimated 31/3/2018	2017	(7.12)	(7.99)

3. Dividend Payments

The dividend policy of Talisman is to distribute the underwriting profit for each Year of Account, net of expenses and corporation tax, to those investors supporting that Year of Account. The dividend paid on a "B" share is equivalent to 1,000 "A" shares, except that the "B" share (supported by unpaid loan stock as part of a "unit") does not benefit from the investment earnings of the company.

Dividend Number	Year of Account	Date Paid	Net Dividend per "A" Share	Net Dividend per "B" Share
1	2002	14/12/2005	9.2p	£84.00
2	2003	28/07/2006	5.0p	£50.00
3	2003	29/01/2007	6.0p	£56.50
4	2004	24/08/2007	3.0p	£30.00
5	2004	19/12/2007	2.7p	£24.00
6	2005	28/11/2008	2.0p	£14.00
7	2006	31/03/2009	4.0p	£40.00
8	2006	17/12/2009	8.0p	£72.00
9	2007	31/03/2010	3.0p	£30.00
10	2007	31/12/2010	6.0p	£40.00
11	2008	22/07/2011	2.0p	£20.00
12	2008	20/12/2011	3.5p	£18.20
13	2009	31/07/2012	3.6p	£36.00
14	2009	23/04/2013	4.1p	£36.00
15	2010	17/12/2013	2.1p	£17.00
16	2011	31/07/2014	1.6p	£16.00
17	2011	19/12/2014	2.0p	£17.00
18	2012	10/07/2015	3.3p	£33.00
19	2012	18/12/2015	3.5p	£33.30
20	2013	29/07/2016	3.5p	£35.00
21	2013	21/12/2016	3.7p	£35.00
22	2014	28/07/2017	3.5p	£35.00
23	2014	11/07/ 2018	4.0p	£39.00

4. Result for the 2015 Year of Account

The 2015 year of account endured some sizeable losses, particularly in the aviation sector, with the losses of Germanwings flight 9525 and Metrojet flight 9268. Other notable losses were the explosion at the Port of Tianjin in China and Pemex's Abkatun oil platform in the Gulf of Mexico.

However aggregate major claims and insured catastrophe losses were below the long term average. As a result this year of account was able to report a good underwriting profit which was boosted by releases of redundant reserves from prior years and an investment return which was better than might have been expected. The pure return as a percentage of capacity was 9.94%. This compares well with the forecast profit of 12 month ago of between 3.3% and 10.1%.

Of the 20 syndicates supported in 2015, 16 produced a profit and 4 a loss. Of particular note are the Hiscox syndicates 33 and 6104. The former produced a profit on capacity of 17.8% and its specialist high risk reinsurance syndicate 36.1%. Those making a loss were Motor syndicate 218 (-4.65%), Canopius 958 (-5.25%), Charles Taylor 1884 (-41.63%) and Coverys 1991 (-6.79%). Their collective loss was equivalent to 1% of Talisman's premium limit.

5. Forecast for the 2016 Year of Account

The current forecast for the 2016 year of account is between a profit of 3.8% and a loss of 3.1% with a mid-point profit of just 0.35%.

When Talisman reported 12 months ago the mid-profit forecast was 1.7% but that was before hurricanes Harvey, Irma and Maria. Although those events occurred during 2017, there were policies that incepted during the latter part of 2016 that were still on risk when the hurricanes happened.

The largest insured natural catastrophe during 2016 was hurricane Matthew. Other notable claims included the earthquake in New Zealand at Kaikoura, the wildfire which devastated Fort McMurray in Alberta, Canada and the loss of SpaceX's Falcon 9 rocket together with its payload Amos-6 satellite.

On the assumption that there will be a release of some redundant claims reserves, we would expect the year to close towards the upper end of its current range and comfortably outperform the Lloyd's market.

6. Forecast for the 2017 Year of Account

The largest insured natural catastrophe event in 2017 was hurricane Irma, which devastated large parts of the Caribbean and Florida. Hurricane Harvey caused significant wind and flood damage in Texas whilst hurricane Maria caused widespread damage in the Caribbean and in particular in Puerto Rico.

The market also incurred significant claims from the wildfires in Northern California in October and in Southern California in December. Other notable events included the Mexican earthquake and cyclone Debbie which caused damage and flooding in Australia.

The first forecast from managing agents for their syndicates as at 31 March 2018 suggest a loss for the year on capacity of between 2.6% and 11.6%% with a mid-point of 7.1%. In the past it has often been suggested that as much as good years get better, poor years get worse. We would not expect that adage to apply any longer as a consequence of Solvency II and the amount of data now available to managing agents. There do however remain the caveats that many policies remain on risk, we are yet to go through this year's windstorm season and other catastrophes can occur at any time.

7. Portfolio Planning

Syndicate Split 2018

It is fortunate that the capacity auctions now take place across the first 2 weeks of November as that enabled the Directors to have a preliminary view of the impact of the hurricanes on the capital requirements of the company and the level of underwriting that could be afforded for 2018.

At the same time managing agents were rapidly reviewing the business plans for their syndicates subsequent to the hurricanes and the improvements in trading conditions in the market place that might arise.

As can be seen in Section II there were meaningful pre-emptions for 2018 including those on the 'A' rated syndicates 33, 609 and 623 which were naturally taken up.

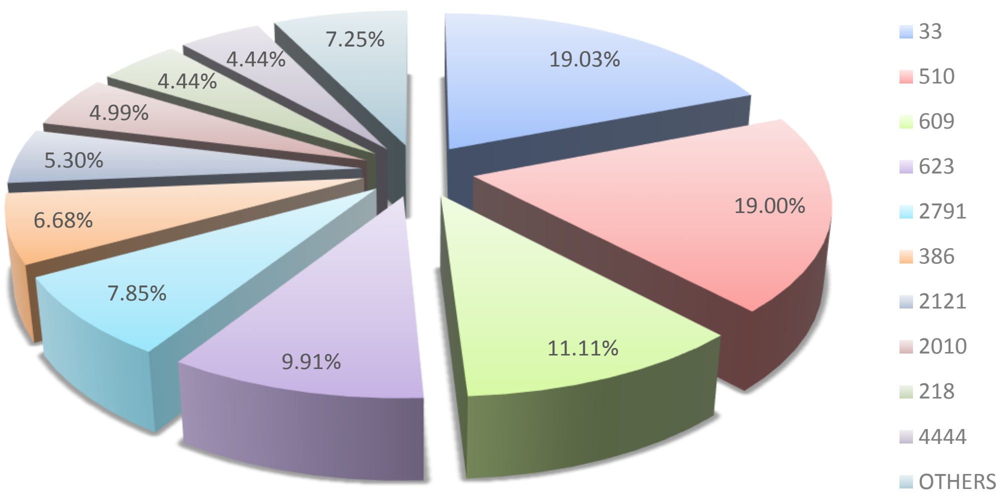
With cashflow constraints there was little appetite to spend money at auction but the pre-emptions at no cost facilitated the re-balancing of the account and the sale of some other participations.

Whilst we have great respect for syndicate 727 and its underwriter and owner, Michael Meacock, the high price available in the auction coupled with Talisman's modest involvement was an opportunity to generate some useful proceeds.

In last year's report we commented that we were carefully monitoring our involvement on the newer syndicates 1884 and 1991. Our member's agent, Argenta Private Capital Limited recommended that Talisman and all clients left syndicate 1884. With better opportunities available elsewhere, the Directors also chose to leave syndicate 1991 where there was only a small participation. The involvement on motor syndicate 218 was also reduced as the performance remains disappointing and the future uncertain whilst awaiting the Government's review of the Ogden tables for calculating the damages for long term injury claims.

The principal syndicates supported for the 2018 year of account are illustrated below in capacity order.

Full details are given in Section II.



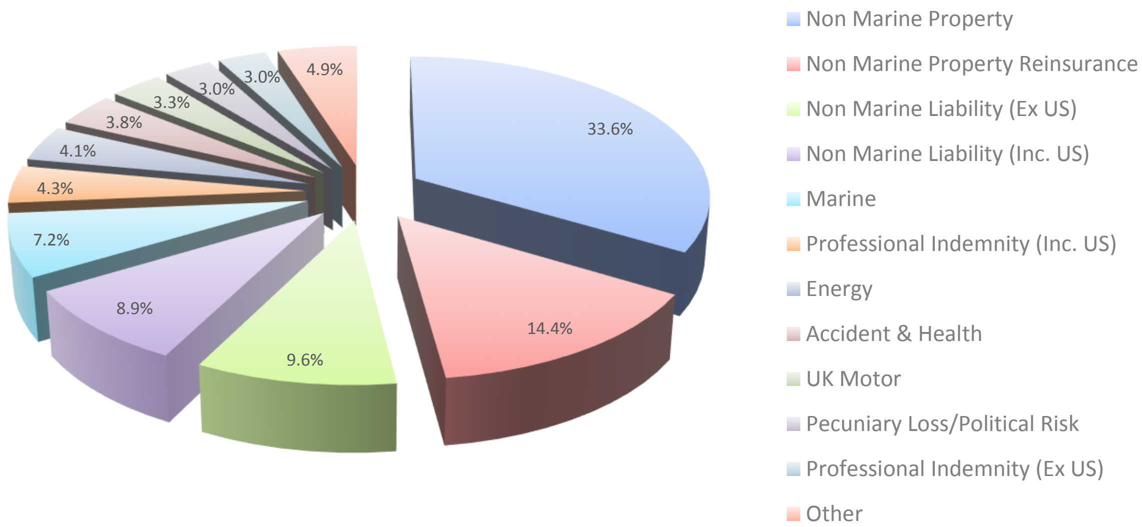
8. Market Trends and Renewals

Overview

In the aftermath of the hurricanes there was a clear expectation of improved trading conditions in affected areas and a reversal of the general rate erosion that had occurred in recent years. That certainly occurred but the overall level of improvement has proved to be at a level lower than desired. It is hoped that as we move through the year more momentum will be gathered and that most importantly the increases are sustained year on year.

The continuing, albeit modest, increase in interest rates in the United States and thus the risk free rate of return, should assist this objective.

The chart below shows Talisman's spread of business across the major classes for the 2018 year of account, with further comments following.



Non-Marine Property

Syndicates have been seeking growth in direct property lines principally through the network of cover holders and managing general agencies. This sector was affected by the hurricanes and the reductions which had been the norm during 2017 came to an end with some price correction in the last few months of 2017 continuing through 2018.

In the US, the rate increases being achieved tend to be at a higher level than for reinsurance business since this sector is less prone to competition as individual unit premiums are likely to be small in comparison.

This account also includes larger risks, often complex international commercial business, written under structured insurance programs. Competition remains strong for this class where facilitated reinsurance markets will often write part of the original risk at a fraction of the original premium.

Risk selection remains key, as do the level of acquisition costs, but there is reason to have cautious optimism about this class.

Non-Marine Property Reinsurance

The rate increases in the property reinsurance market continue at a very slow pace as intense competition remains between alternative and traditional players. For example the June renewals in Florida saw only average increases of 1.2% according to a Major Broker. These rate increases have not lived up to expectations given the cost of last year's hurricanes.

Insurance Linked Security (ILS) players continue to expand into areas historically dominated by traditional reinsurers forcing them to defend their market share. ILS funds have caused a change in the dynamics. In contrast to traditional markets that like to see payback post loss, the ILS funds want adequate margin for the capital that remains plentiful.

It is interesting to note that rate increases have tended to be more dependent on 'good' ceedant behaviour than losses. Where ceedants have failed to adequately communicate with reinsurers about losses or mismanaged claims, tougher renewals have followed.

Non-Marine Liability

The casualty market at Lloyd's is comprised of a range of sectors. Whilst the US is the largest single market for Lloyd's, Talisman has a preference for non-US risks which come in good part through syndicate 386, one of the few syndicates forecasting a profit for 2017. As with most sectors of insurance there has been intense competition aggravated by those seeking to write this class as a way of diversifying risk.

Some of the business written in the UK will also be affected by the UK Government's decision to revise its proposal for the Ogden discount rate. It is anticipated that this will improve from the current rate of -0.75% which should have a positive effect on reserves needed to be held for affected claims.

Cyber business comes within this sector of the market and continues to expand. Whilst a significant proportion of the business written is from the US there is also growth in European business. As an innovator, Lloyd's has been at the forefront in developing this risk and writes approximately a third of the global market. Whilst this class remains in its infancy, careful monitoring of exposures is critical.

The economic outlook and political uncertainty, including Brexit, can impact on this class of business and although the landscape is changing there continues to be excess capacity that will keep trading conditions challenging.

Marine

Competition for most lines of marine business intensified further during 2017 with the string of hurricanes resulting in substantial cargo and yacht losses. A period of more disciplined underwriting may be beginning but this sector remains competitive due to excess capital being available despite a very poor 2017. We expect syndicates to be carefully reviewing their Hull and Cargo books and cutting back where profits cannot be reasonably expected.

Energy

The energy sector includes a variety of onshore and offshore property and liability risks including construction, exploration, production, refining and distribution and was the only class of business to record a profit at Lloyd's in 2017.

Conditions for energy business remained challenging during this year. Whilst the oil price continues to recover it is not at a price to encourage a large scale increase in offshore exploration and production. However more efficient drilling techniques are changing the economics of the industry and increasing the demand for insurance.

Fortunately offshore property benefited from another benign year of loss whereas onshore the hurricanes affected various power generation plants.

UK Motor

Talisman's main exposure in the UK motor market is through its participation on ERS syndicate 218, the only remaining motor syndicate operating at Lloyd's. It writes a specialist book of UK business entirely sourced through the broker network. Business lines include private car, classic car, agricultural, fleet, commercial motor and breakdown.

The business has been through a process of transformation following a change of control in April 2013 and a thorough overhaul of systems and management.

Although rate increases are being applied, the environment continues to be extremely challenging given the prevalence of aggressive claims farmers, not to mention fraud.

An announcement on the change in the Ogden discount rate used by UK courts in settling claims involving catastrophic injuries and long term care is also awaited which should bring some benefit to the syndicate by reducing the cost of such claims.

On 5th May 2017 Mark Bacon, the underwriter, resigned and he has been replaced by Martin Hall. We don't doubt that the owners of ERS, namely Aquiline, a New York based private equity investor, seek to return the syndicate to profitability but performance remains poor. Talisman reduced its participation on the syndicate for 2018 and will be carefully examining the prospects for 2019.

Aviation

In the aviation market conditions remained generally poor in 2017 with exposures tending to be to sub classes such as product liability, space and reinsurance.

Fortunately the market benefitted from a low level of loss activity with the airline sector having one of the safest years on record in terms of fatalities. Whilst major losses may be rare, the cost of attritional losses increased due to advanced technology, the use of composite materials and the cost of repairs.

Many of the major airlines renew their insurance in October and after years of continuing price reductions some uplift in rates was seen but much more is needed this year if any growth is to occur.

9. Conclusion

Lloyd's has one of the finest reputations in the world as a place to underwrite specialist insurance risks using its licenses to transact business in over 200 countries and territories. A brand recognised globally for its innovation and entrepreneurship as demonstrated by its lead in developing products to cover cyber risks. Policyholders benefit from its ability to pay claims and its regulatory framework.

However there were 3 major hurricanes in 2017 and Lloyd's reported a £2bn loss for the year.

The long-term performance of the Lloyd's market is paramount going forward. Underwriters need to carefully scrutinise the risks they are writing and focus on pricing. Growth is pointless, unless it is profitable, in the insurance industry.

There are challenges ahead and the way the business comes to Lloyd's needs to be updated to ensure there is a long-term competitive advantage. Modernisation and the use of technology are essential for the future and prosperity of the business.

A strength of Lloyd's being a subscription market can be in reducing costs by the use of consortia led by best in class underwriters. This has to be to the benefit of many and should be encouraged.

If costs are to be further reduced, the business needs to be packaged and placed on a portfolio basis and the use of broker facilities coupled with lower expenses has to be examined as another way forward. The balance between underwriting profit and expenses has to be carefully judged.

The move to the electronic placement of business is another imperative and the carrot and stick approach which Lloyd's has just introduced, to encourage the use of Placing Platform Limited, should accelerate this change.

Lloyd's centrally has spoken to the market as have the PRA. The message is loud and clear to the Boards of the managing agents to do what they are paid to do in ruthlessly scrutinising their businesses and taking severe action on the classes that underperform. Their actions will be carefully monitored and there should be no mercy for those that do not have the courage to fulfil their obligations. The vision is clearly a smaller but more profitable Lloyd's.

Whilst we might be selective and have confidence in those syndicates that Talisman supports, it is in everyone's best interest that the Lloyd's brand and franchise continues to be seen as one of the best in the world, one that is facing up to the challenges ahead, remaining attractive to customers and plans its role in developing products that fit in the ever changing technology landscape. Those at the top know this and must now show strength in leadership to ensure Lloyd's changes with the times both for today and the future.

It should not be forgotten, however, that Lloyd's has a history of attracting and retaining high quality underwriters. Today the best are backed by strong management teams and this combination has helped to create some remarkable businesses. Perhaps Hiscox is the most widely known. There are a significant number of syndicates trading at Lloyd's today, whose underwriting results are respected by the Insurance Industry as a whole.

It is our task at Talisman to identify and support syndicates of quality in order to provide our shareholders with satisfactory returns. Lloyd's will take the losses of 2017 in its stride but if those losses focus minds on change and innovation then we can all benefit for the future and at Talisman we look forward to that.

SECTION II

10. Syndicate Participations

Detailed below are the syndicate participations for the 2015 account onwards as at 1 January for each year of account for all of Talisman's corporate members trading at Lloyd's. The numbers are not adjusted for any subsequent acquisitions in that year.

Syndicate	Underwriter	Managing Agent	Allocated Premium Limit			
			2015 £	2016 £	2017 £	2018 £
33	P Lawrence	Hiscox	2,499,807	2,679,807	3,081,778	4,287,692
218	M Hall	ERS	962,725	1,041,759	1,388,630	1,000,000
318	D Eales	Beaufort	705,112	737,190	737,190	679,661
386	D Harries	QBE	1,503,464	1,673,010	1,504,399	1,504,399
510	P Culham	Tokio Marine Kiln	4,004,978	4,268,917	4,599,741	4,280,000
609	T Drysdale	Atrium	2,182,506	2,337,564	2,337,564	2,503,741
623	N Maidment	Beazley	1,344,134	1,640,447	1,939,007	2,232,520
727	M Meacock	Meacock	352,723	352,723	352,723	0
958#	M Duffy	Canopius	949,636	N/A	N/A	N/A
1884	R Dorey	Charles Taylor	200,000	330,000	330,000	0
1969	N Jones	Apollo	281,838	329,927	384,914	300,000
1991	D Wright	Coverys	109,623	97,463	97,463	0
2010	J Barnes	Cathedral	1,257,221	1,297,266	1,297,266	1,125,000
2121	I Maguire	Argenta	771,387	947,855	1,053,173	1,193,596
2525	D Dale	Asta	109,048	129,127	0	0
2791	R Trubshaw	MAP	1,676,582	1,769,482	1,769,482	1,769,482
4444	M Duffy	Canopius	N/A	1,041,425	1,041,425	1,000,000
5886	J Hamblin	Asta	N/A	N/A	195,000	234,000
6103*	R Trubshaw	MAP	27,126	31,416	39,557	118,671
6104**	M Krefta	Hiscox	250,000	218,560	224,970	100,000
6105***	N Bonnar	Ark	670,929	N/A	N/A	N/A
6111****	P Greensmith	Catlin	1,072,805	1,239,962	627,882	200,000
TOTAL			**20,931,644**	**22,163,900**	**23,002,164**	**22,528,762**
		No. of Syndicates	**20**	**19**	**19**	**16**

\# Syndicate 958 merged into Syndicate 4444 for the 2016 year of account. They were previously written in parallel.
* Syndicate 6103 provides a specific catastrophe account quota share reinsurance of MAP Syndicate 2791
** Syndicate 6104 provides a specific catastrophe account quota share reinsurance of Hiscox Syndicate 33
*** Syndicate 6105 provides a quota share reinsurance of specific accounts of ARK Syndicate 4020
**** Syndicate 6111 provides a whole account quota share reinsurance of Catlin Syndicate 2003.
Participation on the 6000 series of syndicates is on a limited tenancy basis and they are not traded through the auction process.
Talisman is not involved with any syndicates in run-off.

11. Syndicate Pre-emptions

The syndicates pre-empting that affected Talisman for 2018 are detailed below.

Syndicate	Underwriter	Managing Agent	Pre-Emption %
33	P Lawrence	Hiscox	39.13
609	T Drysdale	Atrium	7.11
623	N Maidment	Beazley	15.14
1969	N Jones	Apollo	7.14
2121	I Maguire	Argenta	13.33
4444	M Duffy	Canopius	7.50
5886	J Hamblin	Asta	20.00

12. Syndicate Capacity Sold

The syndicate capacity sold by Talisman at the 2017 auctions is detailed below.

Syndicate	Managing Agent	Capacity	Proceeds £
218	ERS	£388,630	233.35
318	Beaufort	£137,190	59.37
510	Tokio Marine Kiln	£319,741	53,627.32
727	Meacock	£352,723	248,004.77
1969	Apollo	£112,408	1,082.35
2010	Cathedral	£172,266	23,374.32
4444	Canopius	£119,532	8,186.37

13. Syndicate Ratings

Syndicate ratings are calculated using various indicators that Argenta Private Capital Limited (Argenta) has used in determining support for individual syndicates. These include quantitative issues such as past performance, the prudence of reserves, potential volatility in returns, the security behind the reinsurance programme and the level of delegated authority given by a syndicate to third parties. In addition, qualitative issues, for example, such as the managing agent's operational and governance structure, its strategy and its alignment of interest with capital providers are also taken into account. These are combined to produce an overall rating for each syndicate that ranges from "A" to "D". The table below shows the bias toward better rated syndicates and provides a comparison with the previous 2 years.

Rating	Talisman %			Market %		
	2018	2017	2016	2018	2017	2016
A	55.3	45.3	43.9	46.7	44.0	44.1
B+	27.5	30.4	33.5	23.8	23.9	26.6
B	12.6	13.8	14.5	9.8	12.3	12.7
C+	0.8	1.7	1.5	2.6	3.3	3.2
C	3.8	8.7	6.0	16.5	15.3	12.2
D	0	0	0	0.6	1.2	1.2

14. Risk Ratings

The Risk Rating has been compiled as an indicator of the level of each syndicate's trading and management risk as perceived by Argenta. "Risk" may be defined, in this context, as the likelihood of the syndicate suffering a large, above average, loss as assessed by reference to a number of quantitative and qualitative criteria as follows:

- The Syndicate Capital Requirements produced by Lloyd's (reflecting the volatility of the business written;
- The volatility of past syndicate results;
- The exposure to catastrophic loss (as determined by syndicates' Realistic Disaster Scenarios);
- The exposure to reinsurance failure;
- The quality of the managing agent.

The Risk Rating is not therefore a measure of potential profitability. Nor does the fact that a syndicate has a lower rating mean that it will not suffer a large loss. Rather, a lower rating would suggest that, based on a number of objective tests, followed by a subjective assessment, the syndicate is thought less likely to suffer an abnormally large loss. Insurance is inherently a high risk business and therefore the emphasis of this analysis is on relative risk. The table below demonstrates the bias away from higher risk syndicates in comparison to the market.

Rating	Talisman %			Market %		
	2018	2017	2016	2018	2017	2016
Very High	1.0	1.1	1.1	5.8	4.7	4.7
Higher	0.0	2.7	0.4	9.0	10.9	4.1
Medium to Higher	47.6	39.3	41.5	45.8	36.4	41.6
Medium	51.4	56.9	56.9	39.4	47.4	48.9
Lower to Medium	N/A	0	0	N/A	0.6	0.6

15. Business Split Analysis

The table below shows the estimated business split of Talisman for the 2018 Year of Account. As a comparison, we show the market average for all capacity available to third party capital providers and the figures for 2016 and 2017. The categories used are based on the estimated split of account supplied by syndicates in their 2018 business forecasts and adjusted to take account of the level of premium income forecast to be written. The initial risk codes supplied by syndicates are numerous, accordingly Argenta combines these initial codes into the broader categories shown.

Risk Category	Talisman %			Market Average %		
	2018	2017	2016	2018	2017	2016
Non Marine Property	33.6	29.2	30.3	30.3	27.9	29.0
Non Marine Property Reinsurance	14.4	11.8	11.0	18.0	14.8	12.9
Non Marine Liability (Ex US)	9.6	10.3	11.1	7.7	9.0	9.4
Non Marine Liability (Inc. US)	8.9	8.0	6.2	9.6	9.1	7.5
Marine	7.2	8.3	9.0	6.8	8.0	8.6
Professional Indemnity (Inc. US)	4.3	3.9	3.6	4.3	4.2	3.9
Energy	4.1	4.5	5.9	3.5	4.1	5.3
Accident & Health	3.8	4.4	4.5	3.6	4.1	4.2
UK Motor	3.3	8.5	7.2	5.1	7.3	6.3
Pecuniary Loss/ Political Risk	3.0	3.0	2.4	2.8	3.0	2.5
Professional Indemnity (Ex US)	3.0	2.8	2.9	2.7	2.6	3.0
Aviation	2.0	2.2	2.7	1.7	1.8	2.3
Marine Reinsurance	1.1	0.9	1.0	0.9	0.8	0.9
Non Marine Liability Reinsurance	0.8	0.9	1.0	1.2	1.5	1.8
Space & Satellite	0.5	0.6	0.7	0.5	0.5	0.7
Aviation Reinsurance	0.5	0.6	0.6	0.6	0.5	0.6

16. Realistic Disaster Scenarios (RDS)

The table below illustrates the potential impact of the “Realistic Disaster Scenarios” (RDS) on Talisman’s portfolio. RDS are standardised catastrophic loss scenarios which Lloyd’s requires all syndicates to calculate each year to estimate their potential gross loss (before reinsurance recoveries) and net loss (after reinsurance recoveries) in their Business Forecasts.

As RDS are estimates, they are based on assumptions by the managing agency on their likely levels of income, business written and reinsurance purchased for the year. Therefore they are very much subject to change. In all cases Argenta has taken Managing Agents’ projected exposure contained in their 2018 Business Forecasts. For a number of syndicates the RDS figures will represent a maximum appetite for exposure rather than actual exposure. For this reason, the RDS exposures may be over-stated.

Changes to the underwriting policy, reinsurance programme and rating levels will all change the actual exposure. It is also important to note that a single loss can impact a number of different underwriting years, depending upon the inception date of the affected policies. Managing Agents are expected to report on the aggregate exposure to all underwriting years i.e. if they report an exposure of 10%, this might be made up of 7% to the 2018 year of account, 2% to the 2017 account and 1% to 2016 and not as 10% to 2018. As the reinsurance market is dynamic, particularly in the event of catastrophe losses, it is not possible for a managing agent to be certain that it can write the projected book at the expected rates nor for them to accurately assess the likely cost, availability and attachment point of reinsurance. These figures should therefore be taken as no more than indicative.

The percentages shown represent a guide to the potential cost to Talisman in the event of the occurrence of one of these loss scenarios, and not the final result of the year of account. Other non-aggregating sections of the account could, depending on their profitability, produce profits to mitigate such catastrophe losses. They could also, of course, produce further losses. The figures should be treated as indicative, as actual losses are likely to be different, particularly in the event of a series of major losses occurring in the same period.

Catastrophe Scenario	Talisman %			Market Average %		
	2018	2017	2016	2018	2017	2016
Whole World Natural Catastrophe AEP 1 in 30	20.5	20.1	N/A	25.2	22.6	N/A
US Windstorm AEP 30 Year Return Period	14.6	14.3	11.1	18.4	16.1	13.8
Cyber – Major Data Security Breach	10.6	9.2	N/A	9.6	7.9	N/A
Terrorism – Rockefeller Centre	9.2	9.6	9.0	12.1	10.8	10.5
US Earthquake AEP 30 Year Period	7.4	7.2	12.3	9.5	8.2	14.4
Loss of Major Complex	6.5	6.3	5.9	9.0	8.9	9.4
Aviation Collision	6.4	6.0	6.0	5.5	5.4	5.4
Marine Event	4.7	4.8	4.3	4.5	4.3	4.1

RDS Descriptions

US Earthquake AEP 30 Year Return Period

US Windstorm AEP 30 Year Return Period

Whole World Natural Catastrophe AEP 1 in 30

These scenarios denote each syndicate's exposure to a catastrophic event, the impact of which is what might be expected to occur only once in every thirty years. To calculate these exposures, syndicates use a sophisticated model that runs multiple simulations of events to determine the impact of these 1 in 30 year losses:

Whole World Natural Catastrophe AEP 1 in 30	A natural catastrophe, be it an earthquake, windstorm, flood anywhere in the world.
US Windstorm AEP 30 Year Return Period	A Windstorm in the USA
US Earthquake AEP 30 Year Return Period	An Earthquake in the USA

To put these exposures into context, these RDS events might be expected to occur once every 30 years. Members' capital requirements envisage losses at a level that might occur once every 200 years.

In syndicates’ 2018 business plans, exposures are based on the modelling output typically used for reinsurance purchase which better explains how frequent a given loss can be expected to be over a prolonged (many hundreds of years) period. These models are also extensively used in determining what the adequate level of capital is for a syndicate to be resilient to the size of loss that can be expected to recur once every 200 years. The parameter that Lloyd’s use is called the Aggregate Exceedance Probability (or AEP) and it calculates the total loss that the syndicate would expect to experience once every thirty years arising out of the particular peril.

Therefore, a “1 in 30 year US Wind AEP” describes the expected loss from all US wind events in a single year that would be expected to recur once in thirty years. Note the word “aggregate” in AEP means that this exposure could be in consequence of a single large event, or a combination of smaller events.

Argenta’s analysis shows that the aggregate exposure to the “1 in 30 US Wind AEP” for a typical portfolio is around the level of the Florida Windstorm RDS in previous reports. The “1 in 30 US earthquake AEP” is a lower exposure than the Californian earthquake scenario for a typical portfolio. In other words, the Californian earthquake scenarios described the type of event that is to be expected less often than once every thirty years.

Aviation Collision

Assumes a collision between two aircraft over a major city, anywhere in the world, using the syndicate’s two highest airline exposures. Assumes a total liability loss of up to US$4 billion, comprising of up to US$2 billion per airline and any balance up to US$1 billion from an air traffic control liability policy(ies) and/or a major product manufacturer’s product liability policy(ies), where applicable. Consideration should also be given to other exposures on the ground.

Cyber Attack

A series of simultaneous cyber-attacks are launched on large multinational organisations across one industrial sector with the intention of causing major disruption and financial loss to organisations. During the attacks, customer data (e.g. internet protocol address, credit card details and other information) is lost.

The attacks target vulnerabilities in the operating systems, web applications and/or software used by these organisations. For the purposes of this exercise it is assumed that multiple systems and/or multiple organisations using the same systems/software are affected. The hacking attacks may take the form of a virus, or an alternative vector of attack. As a result of the breach, customer management and trading systems, networks and supply chains are disrupted at these organisations for a duration of 24 hours.

Assumes the ten largest clients worldwide are targeted, in the sector with the greatest exposure and that all client data at these organisations is lost, that class actions are pursued and there will be organisations that face third party liability claims

Loss of Major Complex

Assumes a total loss to all platforms and bridge links of a major complex. Includes property damage, removal of wreckage, liabilities, loss of production income and capping of the well.

Marine Collision

A cruise vessel carrying 2,000 passengers and 800 staff and crew is involved in a high-energy collision with a fully laden tanker of greater than 50,000 DWT with 20 crew. The incident involves the tanker sinking and spilling its cargo; there are injuries and loss of lives aboard both vessels.

Assumes an apportionment of negligence of 30% to the tanker owner and 70% to the cruise vessel and that the collision occurs in US waters.

Assumes that the cost of pollution clean-up and compensation fund amounts to US$2 billion. This would result in claims against the International Group of P&I Associations' General Excess of Loss Reinsurance Programme, and any other covers that might be in force.

Assumes an additional compensation to all passengers and crew for death, injury or other costs of USD1.15 billion and removal of wreck for the Tanker of USD100m. The cruise ship is severely damaged but is towed back to a safe harbour (repair estimate US$50m and US$10m for salvage operations).

Terrorism

Rockefeller Centre Event - The Midtown Manhattan area, New York, at 11:00am on 1st January suffers a 2-tonne bomb blast attack causing collapse and fire following within a radius of 200m, massive debris damage to surrounding properties up to a radius of 400m and light debris damage to surrounding properties up to a radius of 500m. 1,000 blue/white collar worker deaths and 2,500 injuries in total.

Overland/underground transport systems are partially damaged, leading to significant business interruption exposure for a period of three months.

All possible affected business classes should be included in the calculations, such as Contingent Business Interruption and Specie/Fine Art.

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