TALISMAN

UNDERWRITING PLC

Report – July 2019

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Talisman Underwriting Plc
Report – June 2019

1. Introduction

The 2016 year of account closed at 31 December 2018 and, as forecast, Talisman can report a pure profit of 3.4% on overall premium limit (OPL) before members' agent's charges. On a similar basis Lloyd's overall produced a loss of 2.9%.

The forecast for the 2017 year of account shows little change from that of 12 months ago at a loss of between 3.4% and 11.7%, with a mid-point loss of 7.5% of OPL. This will be Talisman's first loss since 2001 and is consequent upon hurricanes Harvey, Irma and Maria. When the account closes at 30 December 2019 we would expect a modest improvement due to the release of redundant reserves.

The 2018 year of account also suffered from an above average claims experience with the current forecast being between a profit of 1.9% and a loss of 7.2% with a mid-point loss of 2.7% of OPL. Many policies remain on risk and the final result will be dependent on the claims experience during the remainder of this year, investment income during 2019 and the level of redundant reserves at closure. A breakeven result would be welcome, but only time will tell.

For all the years of account being reported on Talisman is expected to perform better than the Lloyd's market overall due to its portfolio selection. The majority of Talisman's capacity is deployed with first and second quartile syndicates. On average, the first quartile delivered a combined ratio which would have placed them in the upper echelons of any list of underwriting performance anywhere in the world.

For the 2018 calendar year the Lloyd's market reported a loss of £1 billion compared to £2 billion for the previous year. The year was impacted by above average major claims activity coupled with a low return, volatile investment environment. Whilst a challenging year, the insurance sector again demonstrated its value to society by paying billions of pounds globally to claimants large and small.

Whilst there were notable claims events during 2017 and 2018, the impact of small or attritional losses are evident in the loss ratios for both years. Some rate improvements were achieved in 2018 but to encourage a return to profitability, syndicates were required to construct their 2019 business plans on a more rigorous basis and remove poorly performing business from their plan and demonstrate a route to sustainable, profitable performance.

The publicity that followed may have given the false impression that there was a peculiarly Lloyd's flavour to the soft market conditions that have persisted in most lines for five years and that these issues did not extend to the wider insurance market. Since then there have been many instances of competitors in the global market withdrawing from lines of business, placing restrictions on the amount of capacity they are prepared to commit to a risk and seeking rate increases on loss-free renewal business.

We expect to see improved performance from the market as a consequence and most syndicates are already giving us very positive feedback on their experiences during the year to date.

In October 2018 the Market welcomed the new CEO of Lloyd's, John Neal who wasted no time in sharing his enthusiasm in leading and developing the Lloyd's market by launching, in May 2019, a document on the future of Lloyd's. Further comment is made later in this report.

Brexit cannot go unmentioned and Lloyd's new European Insurance Company headquartered in Brussels, together with its 19 European branches, has been processing business since November 2018. This company ensures that customers based in the EEA have access to the Lloyd's market and will continue to do so after the UK has left the EU. Preparations to minimise any disruption from a no-deal Brexit are also underway.

Ruffer Annual Performance Report 2019

A part of Talisman's Funds at Lloyd's (£2.4m at 31 December 2018) is managed by Ruffer and their report is given below. Underwriting at Lloyd's is a risk business and their protective stance matches Talisman's risk appetite.

Ruffer Annual Performance Report 2019

At Ruffer our focus is on delivering consistent positive returns, regardless of how financial markets perform. There has been no change here and the Talisman Underwriting's portfolio continues to be managed in line with this focus and 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.

Our overarching view remains that liquidity conditions, rather than conventional fundamentals (the economy and earnings) are the key axis determining the future direction of asset prices. Following a decade of supportive monetary policy, which has resulted in record high asset prices and ever low levels of volatility, we observed that liquidity conditions tightened significantly in 2018. It was a year dominated by uncertainty, both geo-politically and in markets, and we saw a noticeable change in investor sentiment.

The year began with equities continuing their upwards march in celebration of stronger economic growth. However this positive momentum, which had previously been received with excitement, began to sow the seeds of its own downfall. Given that financial markets have benefitted from loose monetary conditions since 2008, the prospect that central banks might soon be required to reverse policy and tighten monetary policy faster than investors anticipated, caused a panic at the start of February.

Against this backdrop, the S&P fell 10% from its January peaks, with other stock markets quickly following suit, whilst volatility (as measured by the VIX) reaching highs not seen since the China growth scare of 2015. Nevertheless, the market broadly shrugged this fall off as a technical incident, driven by the unwind of fragile volatility-driven trading strategies, and proceeded to gradually recover over the next few months.

Subsequently, further interest rate rises in the US exacerbated this US-centric market recovery and caused a considerable appreciation of the dollar. Dollar cash being repatriated to the US as a result of tax changes and an increasingly attractive interest rate differential created a squeeze outside of the US, with emerging markets, in particular Argentina and Turkey, suffering. Fortuitously, we increased our exposure to the currency post the February mini-crash and as such, the portfolio saw a small boost to performance from this appreciation. This, in addition to some successful individual stock selection, meant we closed out the first half of the year in positive territory.

Moving through to the second half of the year, however, equity markets continued to be challenged. Italian politics took centre stage as Eurosceptic populists and pro EU politicians battled it out for power and uncertainty around trade wars continued, instigated once again by Donald Trump. It is the overarching populist theme behind these events that has caused us some concern given its potential, as it plays out, to damage sentiment around global growth whilst increasing inflation expectations.

However, the continued positive economic data coming out of the US allowed central banks to take the decision to continue tightening. This eventually came to a head when, during an interview in late September, the chairman of the Federal Reserve Jerome Powell confirmed that the economy was a 'long way from neutral on interest rates'. Markets took this to indicate further interest rate hikes were to come and as such reacted negatively, falling again by almost 10%.

Unlike during the first half of the year, the portfolio was not immune to these market moves. Despite a material reduction in our overall equity exposure over the course of the year - driven by our expectation of growing market volatility - looking back there was still too much risk in the fund's equities going into the final quarter. We added to cyclical businesses trading on low valuations, in order to capture the benefits of economic growth while offering a degree of downside protection. In the final arithmetic, however, low valuations did not soften the blow as these stocks fell in line with the market.

In summary, the market fell just enough to cause pain from our equity holdings, but not far enough for a meaningful response from our protective assets (in particular from our options and illiquid strategies investments). Consequently, as the FTSE All-Share Total Return index fell by 10.2% in the final three months of 2018, the Talisman portfolio fell by -6.5%, which represents a disappointing outcome.

Despite this, there was some encouraging performance from some of our protective investments, such as the Illiquid Multi Strategies fund, which rose 30% in the final quarter. Having witnessed the beginnings of stresses in these markets, and the powerful response of this protective asset, we have subsequently made the decision to increase the weighting to our illiquid strategies from 5% to 8% in order to further benefit from any further disruptions in credit markets. This decision reflects our belief that the area of credit remains the most treacherous part of the financial system. With liquidity in this market a shadow of its former self, we believe any accident in corporate bonds could rapidly spread to other risk assets, further supporting our relatively cautious overall positioning.

From our perspective, whilst it is clearly disappointing that we did not manage your portfolio better during the market turbulence in 2018, we do note that the portfolio is not designed to protect capital in market 'tremors' (the likes of which are largely recovered in the following three months) but rather in an 'earthquake' (last seen in the Tech bust in 99 and the Credit Crisis in 08) which we believe will, ultimately, follow. Going forward, we expect markets to be increasingly challenged, particularly when liquidity conditions tighten again. In the meantime, however, we feel that the small changes we have made to our protective investments mean we are well positioned for this end-of-cycle correction. Likewise, a strong performance from some of our equity investments at the start of 2019 also demonstrates that we are able to harvest positive returns while we wait.

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 2017 and 2018 are from figures published as at 31 March 2019.

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
31/12/2018	2016	2.68	(2.86)
Estimated 31/3/2019	2017	(7.5)	(10.4)
Estimated 31/3/2019	2018	(2.7)	(3.8)

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
24	2015	18/12/2018	2.7p	£27.00

4. Result for the 2016 Year of Account

The 2016 year of account closed after 3 years at 31 December 2018. The year witnessed some above average losses particularly in the property sector. Hurricane Matthew was the first category five hurricane since 2007 and affected the Caribbean and the US. The Fort McMurray wildfire also devastated parts of Alberta, Canada.

Talisman produced a pure profit of 3.43% on OPL, much in line with expectation, and a significant outperformance to the Lloyd’s market that produced a loss of 2.86%. The performance was assisted by the release of redundant reserves but hampered by a poor investment performance driven by disappointing corporate bond returns. Investments are valued at mark-to-market prices at 31 December and unrealised gains and losses are included within reported returns.

Of the 19 syndicates supported by Talisman 11 produced a profit, including all the core syndicates, with 8 declaring a loss equivalent to 2% of Talisman’s OPL. Of significance were Charles Taylor syndicate 1884 with a loss of 40% and Apollo syndicate 1969 at 31% of their respective premium limits.

5. Forecast for the 2017 Year of Account

2017 saw a significant rise in the number and cost of catastrophes including hurricanes Harvey, Irma and Maria in August and September, followed by the earthquakes in Mexico and the Californian wildfires. The year was also affected by losses occurring in 2018 that attached to risks incepting in 2017.

New capital has entered the industry, in part encouraged by good results flattered by low catastrophe experience, pushing rates lower. Although our experienced underwriters reacted sensibly and cut exposures and declined under-priced business, the combination of low rating and higher catastrophe experience produced some sizeable losses. Global insured catastrophe losses for the year are estimated by Munich Re’s NatCat service at US$144 billion in 2017 compared to 2016 at US$52 billion.

The Lloyd’s market overall is forecast to have a mid-point loss of 10.4% of OPL using figures at 31 March 2019. On a similar basis the mid-point loss for Talisman is 7.5%. Assuming there is the usual trend for the release of redundant reserves, a loss of around 5% may be nearer the final outcome when the account closes at 31 December 2019.

6. Forecast for the 2018 Year of Account

The notable events in 2018 mainly occurred in the final quarter with hurricanes Florence and Michael in September and October respectively, Typhoon Jebi in Japan at the end of August together with the Californian wildfires in November. Global insured catastrophe losses for the year are estimated at US$80 billion by Munich Re’s NatCat service.

During 2018 increased pricing levels became more widespread as the year progressed after many years of decline. Favourable increases were seen across most lines of business and in particular those affected by losses in 2017.

The Lloyd’s market is forecast to have a mid-point loss of 3.8% of OPL using figures at 31 March 2019. On a similar basis Talisman is forecast to have a mid-point loss of 2.7%. Much business written during 2018 is still on risk, but assuming the second half of 2019 is more normal, there is potential for a second year of loss to be avoided.

7. Portfolio Planning

Syndicate Split 2019

There was no material change to the strategy for the portfolio with the focus remaining on quality and a below average exposure to property catastrophe risks.

Of note Syndicate 33 initiated a modest de-emption, following the major pre-emption in the previous year, with the auction being utilised to compensate by the purchase of £500,000 of capacity. All the pre-emptions were accepted into the portfolio as was the bulk of the capacity obtained through the purchase of the 3 corporate members.

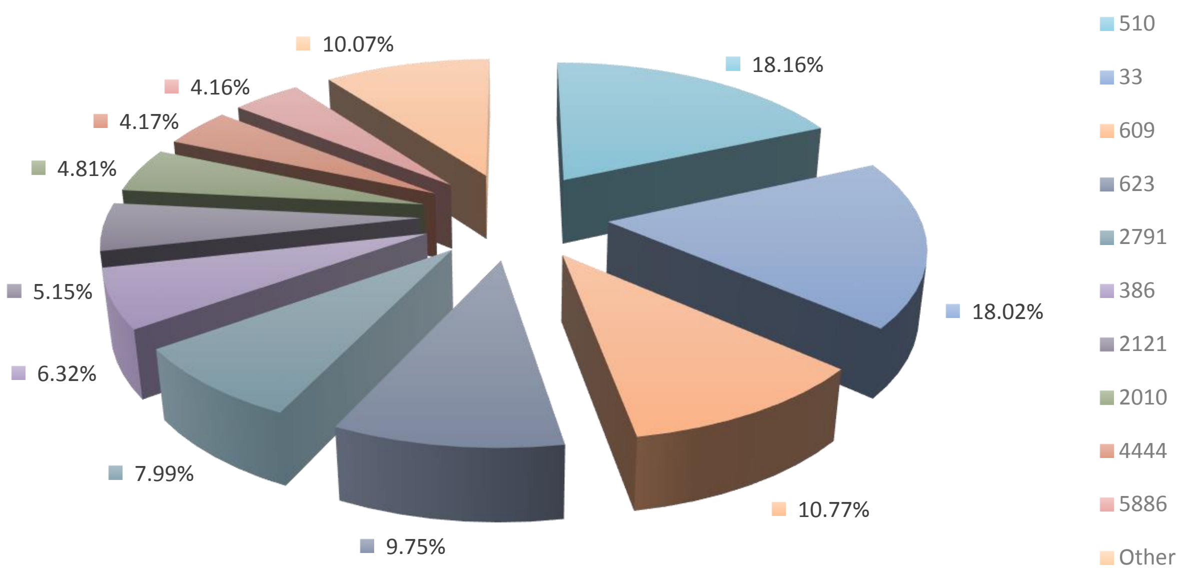
Syndicate 5886 commenced trading in 2017 and given our knowledge of the team, who successfully started syndicate 2010, Talisman purchased £200,000 of capacity at auction. Talisman also acquired, at no cost, £500,000 on a limited tenancy basis.

Syndicate 5623 is an innovation of the Beazley managing agency to develop a low cost syndicate writing approved facilities as a "follower" only. Talisman was only able to secure a small participation for 2019 but will seek to expand this significantly with time, providing it meets the expected level of profitability.

Other purchases were made at auction to balance the portfolio at the required level of £25m.

The principal syndicates supported for the 2019 year of account are illustrated below in capacity order.

Full details are given in Section II.



8. Market Trends and Renewals

Overview

The global financial crisis and the low interest rates that followed, led to capital seeking higher returns, being attracted to the insurance market, by the return on capital shown historically. The influx of capital drove prices down in what transpired to be a relatively benign period for claims until 2017 when the cost of claims rose dramatically. The profitability of insurers and reinsurers reduced while losses were incurred by insurance linked securities.

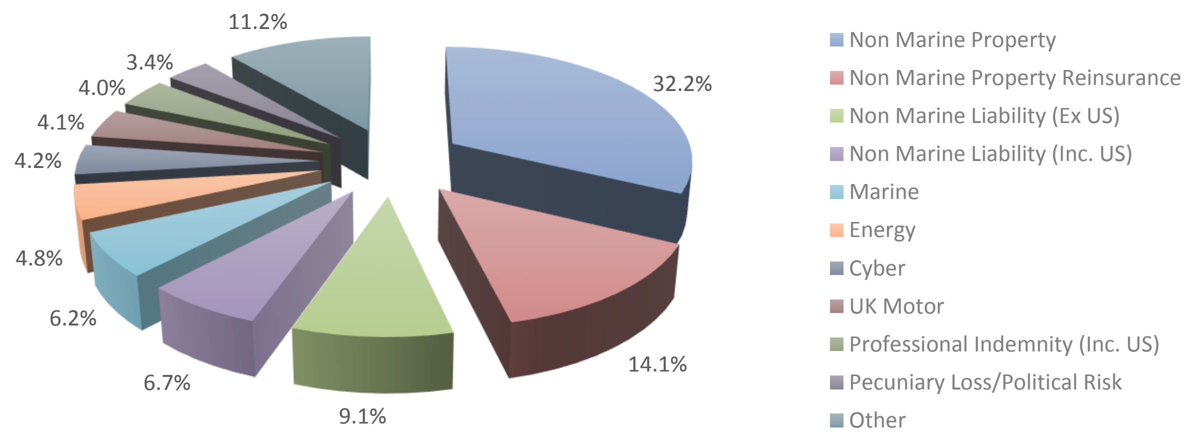
Capital remained in abundance but modest price increases were applied in many classes of business throughout 2018. A tougher approach by Lloyd's to syndicate business plans for 2019 is bearing fruit and greater improvements are being achieved in 2019 particularly in the insurance sector over re-insurance.

At more than half of the market's annual income, the US is the most important market for Lloyd's as a whole. When the US licenced domestic "admitted" market begins to suffer from poor results it will reduce its risk appetite and will often cease to underwrite certain classes of business sometimes on the basis of the type of risk and sometimes on the basis of catastrophe exposure. That business then becomes "excess and surplus" (E&S) and as such Lloyd's syndicates are permitted to write it. This is an opportunity as it will tend to bring better business into Lloyd's than that being renewed, and is important, arguably more so than pricing, as affirming admitted market increases premiums and quality of business in the E&S market.

Lloyd's is by far the largest writer of E&S business, with much written through the network of coverholders granted the authority to bind business on behalf of syndicates. There has been a considerable flow of new US business coming to London following US domestic withdrawal. Anecdotal evidence suggests average risk adjusted rates are up 20% to 25% although there is significant variation by risk profile and loss experience. There is more still to be done on pricing but the trend is very encouraging and will benefit many of the syndicates that Talisman supports.

The E&S market caters for the smaller end of the spectrum for limits of $50m or less. The balance of Lloyd's property book is comprised of large risks at the other end of the spectrum with not much written in-between. Reduction in risk appetite is again changing the landscape for this business. Whilst it is written in the subscription market with several syndicates taking a percentage share of the same risk at the same rate, we are increasingly hearing of so called verticalisation of risks, whereby separate placements are made at different prices with different insurers. Some underwriters are reporting shortfalls on these programmes and that they are being invited to name their price to get the programme completed. As one underwriter commented recently this is not the hardest market that he has witnessed but it is the fastest moving he has seen.

The chart below shows Talisman's spread of business across the major classes for the 2019 year of account, with further comments following.



Non-Marine Property

There has been considerable change in the market place, driven in part by another year of above average natural catastrophe losses. There has also been a move to direct insurance from reinsurance as opportunities and pricing were generally considered superior as detailed above about the E&S market. Income is therefore rising both due to rates and growth in business. Nonetheless risk selection and underwriting discipline remain paramount and price must come before volume to ensure good returns from this class.

Non-Marine Property Reinsurance

The natural disasters that occurred during 2018 affected the reinsurance market and were above the long term average. Despite this being the second year of significant losses there remains a surplus of capital for this type of risk and rate improvements during 2018 were not at the level that could be reasonably justified other than in loss affected areas. This position has improved as we have moved through 2019 with more loss impacted business renewing at higher rates.

More recently Japanese wind business has reported rate improvements of up to 20% and in Florida up to 30%.

Non-Marine Liability

The casualty market at Lloyd's covers a broad range of sectors with cyber being the principal growth area. The market is responding to rapidly evolving exposures, with many customers being first time buyers. Lloyd's provides greater oversight to this class as the additional risks attaching to this class of business are obvious, as with any emerging category. Growth generally in the liability sector will reflect economic activity which is improving slowly.

Claims inflation and increasing severity of claim awards are putting pressure on this sector but whilst moving rates did not respond as desired during 2018 with the notable exception of motor, which saw strengthening in response to the Ogden discount rate.

In contrast 2019 has seen casualty rate momentum picking up pace month on month and in particular for D&O and general liability where there have been some major losses including the mass shooting in Las Vegas. The notable exception is workers compensation.

Marine

The major loss in 2018 was at the Lurssen shipyard in September when the superyacht "Sassi" was destroyed by fire and the yard damaged.

Overall a competitive environment continued throughout 2018 in the marine sectors but with modest price increases being applied particularly in the last quarter. This advance has accelerated in 2019 with rates improving further due to a reduction in capacity in part caused by the Lloyd's remediation exercise. This shortage of capacity has seen rates improve meaningfully for various classes including hull, yacht, cargo and specie.

Energy

There was some growth in this sector during 2018 reflecting rate improvements. Whilst loss experience onshore was significant this was balanced by below average losses offshore. The cost of those onshore losses emphasises the need for greater improvements which are becoming more visible as we move through this year.

UK Motor

Talisman's main exposure to the UK motor market is through its participation on ERS syndicate 218.

The 2016 account closed with a loss of 7% but 2017 is forecast to have a profit of 4%. There is no doubt that underwriting conditions remain challenging but pricing did improve in 2018 consequent upon the Ogden discount rate used in personal injury claims being changed in February 2017.

That rate will be amended again this summer although credit for the anticipated movement is already factored into projections.

Talisman's support for the syndicate fell from 4.4% to 4.1% for 2019. Ongoing support will again be carefully scrutinised on a looking forward basis taking into account, profit potential, diversification of risk provided and a corresponding low level of capital required for the participation.

Aviation

This class, including space and satellites, represents less than 4% of Talisman's portfolio. Income at Lloyd's overall fell during 2018 reflecting previous poor performance and a withdrawal of capacity.

During 2018 there were few large events but it was the frequency and cost of attritional losses that account for the ongoing poor performance. Only those who impose strong underwriting discipline will produce profits even with the increases seen this year.

There will be significant claims following the tragic loss of Lion Air Flight 610 on October 29 2018 and Ethiopian Airlines Flight 302 on March 10 2019, together with the resultant grounding of Boeing 737Max aircraft that together could total $1bn. This combined loss is putting further pressure on a market that may now struggle to be profitable this year.

9. Conclusion

The 2019 planning period was the most challenging at Lloyd's that we have ever witnessed. A significant effort was put into closing the performance gap by the implementation of remediation plans at each syndicate with a clear bias towards those in the third and fourth quartiles but with the knock on effect of improving the opportunities for the better performers.

There are already positive signs that the actions taken, together with a focus on underwriting controls and pricing, are making their impact. Rate increases are the order of the day and prospects for 2019 and 2020 are considered to be amongst the most attractive in recent years. Although improvements in the reinsurance market continue to be patchy, many direct insurance lines of business are experiencing rapidly tightening conditions, rate increases and restriction on coverage.

The continuing challenge for all insurers is to create new products and services for its customers that enable them to manage and mitigate the risks they face. Those risks are changing with technology as the asset mix moves from tangible to intangible. It is incumbent upon Lloyd's as the world's leading specialist market to play its role in this transformation. Enhancing the value Lloyd's provides to its customers must lead the development of the business.

Against this background John Neal has presented the Lloyd's prospectus entitled "The Future at Lloyd's", which sets out a number of transformational initiatives that could shape the future of the world's insurance and reinsurance market.

The proposed solutions focus on delivering higher quality risk protection for the Market's customers, along with simplifying access, thereby lowering the cost of doing business at Lloyd's and include:

• **A platform for complex risk** that makes doing business easier and enables efficient digital support for the placement of the most difficult-to-cover risks.

• **Lloyd's Risk Exchange** allowing less complex risks to be placed in minutes at a fraction of today's costs.

• **Flexible capital** that can simply and effectively access a diverse set of insurance risks on the Lloyd's platform.

• **A Syndicate-in-a-Box solution**, which offers a streamlined opportunity for innovators to bring new products and business into the Market.

• **A next generation claims service** that improves customer experience and increases trust in the Market by speeding up claims payments.

• **An ecosystem of services** that helps all market participants develop new business and provide outstanding service to their customers.

Argenta Private Capital Ltd, members' agent to Talisman, will be playing its part in the consultation exercise and, through the members' agents' sub-committee of the London Market Association, it is intended that third party capital will speak with one united voice to promote what it considers the best outcome for clients and the Market.

Throughout its history, Lloyd's has always sought to reinvent itself by remaining at the forefront of insurance innovation. The proposals in the prospectus are to set Lloyd's up for success for the years to come.

The insurance market has always been cyclical with 2017 being the bottom of the last cycle. Whilst the rate in recovery in 2018 could have been better there has been a significant change during 2019 with rates terms and conditions improving in many sectors and in particular US property. Whilst much comment is in general terms, what matters to Talisman is the success of the syndicates it supports, most of which are amongst the very best at Lloyd's.

With strong leadership and a vision to move Lloyd's forward by John Neal, there is much to look forward to.

SECTION II

10. Syndicate Participations

Detailed below are the syndicate participations for the 2016 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			
			2016 £	2017 £	2018 £	2019 £
33	P Lawrence/M McConnell	Hiscox	2,679,807	3,081,778	4,287,692	4,506,048
218	M Hall	ERS	1,041,759	1,388,630	1,000,000	1,019,743
318	D Eales	Cincinnati	737,190	737,190	679,661	709,661
386	D Harries	QBE	1,673,010	1,504,399	1,504,399	1,581,428
510	P Culham	Tokio Marine Kiln	4,268,917	4,599,741	4,280,000	4,542,844
609	T Drysdale	Atrium	2,337,564	2,337,564	2,503,741	2,694,524
623	A Cox	Beazley	1,640,447	1,939,007	2,232,520	2,437,873
727	M Meacock	Meacock	352,723	352,723	0	0
1884	R Andrews[1]	Charles Taylor	330,000	330,000	0	N/A
1969	N Jones	Apollo	329,927	384,914	300,000	593,333
1991	D Wright	Coverys	97,463	97,463	0	0
2010	J Barnes	Cathedral	1,297,266	1,297,266	1,125,000	1,203,743
2121	I Maguire	Argenta	947,855	1,053,173	1,193,596	1,288,596
2525	D Dale	Asta	129,127	0	0	0
2791	R Trubshaw	MAP	1,769,482	1,769,482	1,769,482	1,997,772
4444	S Willmont	Canopius	1,041,425	1,041,425	1,000,000	1,042,460
5623	A Cox	Beazley	N/A	N/A	0	30,003
5886*	J Hamblin	Asta	N/A	195,000	234,000	1,039,991
6103**	R Trubshaw	MAP	31,416	39,557	118,671	125,873
6104***	M McConnell	Hiscox	218,560	224,970	100,000	198,588
6111****	P Greensmith	Catlin	1,239,962	627,882	200,000	N/A
Total			**22,163,900**	**23,002,164**	**22,528,762**	**25,012,480**
		No. of Syndicates	**19**	**19**	**16**	**16**

* Allocation for 2019 includes £500,000 of limited tenancy capacity.
** 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 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.
1 R Andrews is run off manager for Syndicate 1884 which ceased trading on 21 December 2018.Talisman did not support that final year.

11. Syndicate Pre-emptions or De-emptions

The syndicates pre-empting or de-empting that affected Talisman for 2019 are detailed below.

Syndicate	Underwriter	Managing Agent	Pre-Emption %	De-Emption %
33	P Lawrence/M McConnell	Hiscox		12.5
623	A Cox	Beazley	4.47	
1969	N Jones	Apollo	11.1	
5886	J Hamblin	Asta	19.4	

12. Syndicate Capacity Purchased

The syndicate capacity purchases by Talisman at the 2018 auctions are detailed below.

Syndicate	Managing Agent	Capacity	Cost £
33	Hiscox	500,000	290,370
510	Tokio Marine Kiln	50,000	8,805
1969	Apollo	250,000	400
2121	Argenta	50,000	3,585
2791	MAP	100,000	68,500
5886	Asta	200,000	18,880
Total		**1,150,000**	**390,540**

13. Corporate Members Purchased

The following capacity, net of pre-emptions, was obtained through the purchase of 3 corporate members during 2018:

Syndicate	Church Acre Limited	J.A.T.P LLP	John Coverdale LLP	Total
33	77,776	96,554	79,988	254,318
218	19,743	0	0	19,743
318	0	0	30,000	30,000
386	38,378	18,651	20,000	77,029
510	64,200	78,368	70,276	212,844
609	37,488	103,295	50,000	190,783
623	50,393	0	55,209	105,602
2010	26,250	21,875	30,618	78,743
2121	20,000	0	25,000	45,000
2791	27,202	51,088	50,000	128,290
4444	22,460	0	20,000	42,460
5886	35,833	0	21,500	57,333
6103	0	5,000	0	5,000
6104	0	8,588	0	8,588
Total	**419,723**	**383,419**	**452,591**	**1,255,733**

14. 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 %		
	2019	2018	2017	2019	2018	2017
A	46.5	52.9	45.3	44.9	46.7	44.0
B+	35.7	27.5	30.4	31.2	23.8	23.9
B	4.2	12.8	13.8	6.5	9.8	12.3
C+	2.4	1.3	1.7	1.3	2.6	3.3
C	11.2	5.5	8.7	16.1	16.5	15.3
D	0	0	0	0	0.6	1.2

15. 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 %		
	2019	2018	2017	2019	2018	2017
Very High	1.3	1.0	1.1	5.8	5.8	4.7
Higher	0.1	0.0	2.7	6.8	9.0	10.9
Medium to Higher	51.7	47.6	39.3	47.7	45.8	36.4
Medium	46.9	51.4	56.9	39.7	39.4	47.4

16. Business Split Analysis

The table below shows the estimated business split of Talisman for the 2019 Year of Account. As a comparison, we show the market average for all capacity available to third party capital providers and the figures for 2017 and 2018. The categories used are based on the estimated split of account supplied by syndicates in their 2019 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 %		
	2019	2018	2017	2019	2018	2017
Non Marine Property	32.2	33.6	29.2	30.9	30.3	27.9
Non Marine Property Reinsurance	14.1	14.4	11.8	16.3	18.0	14.8
Non Marine Liability (Ex US)	9.1	9.6	10.3	8.4	7.7	9.0
Non Marine Liability (Inc. US)	6.7	8.9	8.0	7.1	9.6	9.1
Marine	6.2	7.2	8.3	5.0	6.8	8.0
Energy	4.8	4.1	4.5	4.3	3.5	4.1
Cyber	4.2	-	-	4.7	-	-
UK Motor	4.1	3.3	8.5	3.8	5.1	7.3
Professional Indemnity (Inc. US)	4.0	4.3	3.9	4.7	4.3	4.2
Pecuniary Loss/Political Risk	3.4	3.0	3.0	3.1	2.8	3.0
Professional Indemnity (Ex US)	3.1	3.0	2.8	3.0	2.7	2.6
Accident & Health	2.8	3.8	4.4	2.8	3.6	4.1
Aviation	2.3	2.0	2.2	2.0	1.7	1.8
Marine Reinsurance	1.1	1.1	0.9	1.0	0.9	0.8
Non Marine Liability Reinsurance	0.8	0.8	0.9	1.2	1.2	1.5
Aviation Reinsurance	0.6	0.5	0.6	0.6	0.6	0.5
Space & Satellite	0.5	0.5	0.6	0.5	0.5	0.5

17. 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 2019 Business Forecasts.

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 2019 year of account, 2% to the 2018 account and 1% to 2017 and not as 10% to 2019. 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 %		
	2019	2018	2017	2019	2018	2017
Whole World Natural Catastrophe AEP 1 in 30	19.2	20.5	20.1	22.3	25.2	22.6
US Windstorm AEP 30 Year Return Period	13.5	14.6	14.3	15.8	18.4	16.1
Cyber – Major Data Security Breach	10.2	10.6	9.2	10.3	9.6	7.9
Terrorism – Rockefeller Centre	9.2	9.2	9.6	11.4	12.1	10.8
US Earthquake AEP 30 Year Return Period	6.8	7.4	7.2	8.4	9.5	8.2
Loss of Major Complex	6.3	6.5	6.3	9.7	9.0	8.9
Aviation Collision	5.3	6.4	6.0	5.3	5.5	5.4
Marine Event	4.9	4.7	4.8	4.7	4.5	4.3

RDS Descriptions

Whole World Natural Catastrophe AEP 1 in 30

US Windstorm AEP 30 Year Return Period

US Earthquake AEP 30 Year Return Period

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’ 2019 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 uses 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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