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TALISMAN CASUALTY INSURANCE COMPANY

TALISMANCASUALTY.COM

PHONE: 800 318 5317

FAX: 504 648 6701

9075 W. DIABLO DR. SUITE 140

LAS VEGAS, NV 89148

TABLE OF CONTENT

TABLE OF CONTENT	2
Captive Insurance	3
Regulatory	4
Sponsored captive	4
Licensing	4
Structure	5
The Lloyd's security	6
First Link - Syndicate level assets	6
Second Link - Members funds at Lloyd's	6
Third Link - Central Assets	6
Surety market challenges and opportunities	7
The Talisman Philosophy	7
Appendix a	8
Structure	8
Appendix B	9
Appendix C	10

CAPTIVE INSURANCE

By using the captive model insureds are able to better predict pricing and pass on the savings realized by dealing directly with international reinsurance markets to it's members. As loss experience performs better than otherwise broad based trends driving rates with large commercial insurers, additional capacity can be negotiated with reinsurers.

Talisman Casualty Insurance Company ("Talisman") is an alternative risk transfer option for liability insurance. Talisman insurance policies, and bonds are duly licensed, regulated, and authorized insurance transactions governed by the laws of the state of Nevada. Bonds and insurance policies are made available to principals who join the captive as participants by executing a participation agreement and becoming a shareholder. All Talisman capital, surplus, reserves and financial records are maintained per the provisions and regulations of NRS Chapter 694 C (Captive Insurers) <https://www.leg.state.nv.us/NRS/NRS-694C.html>

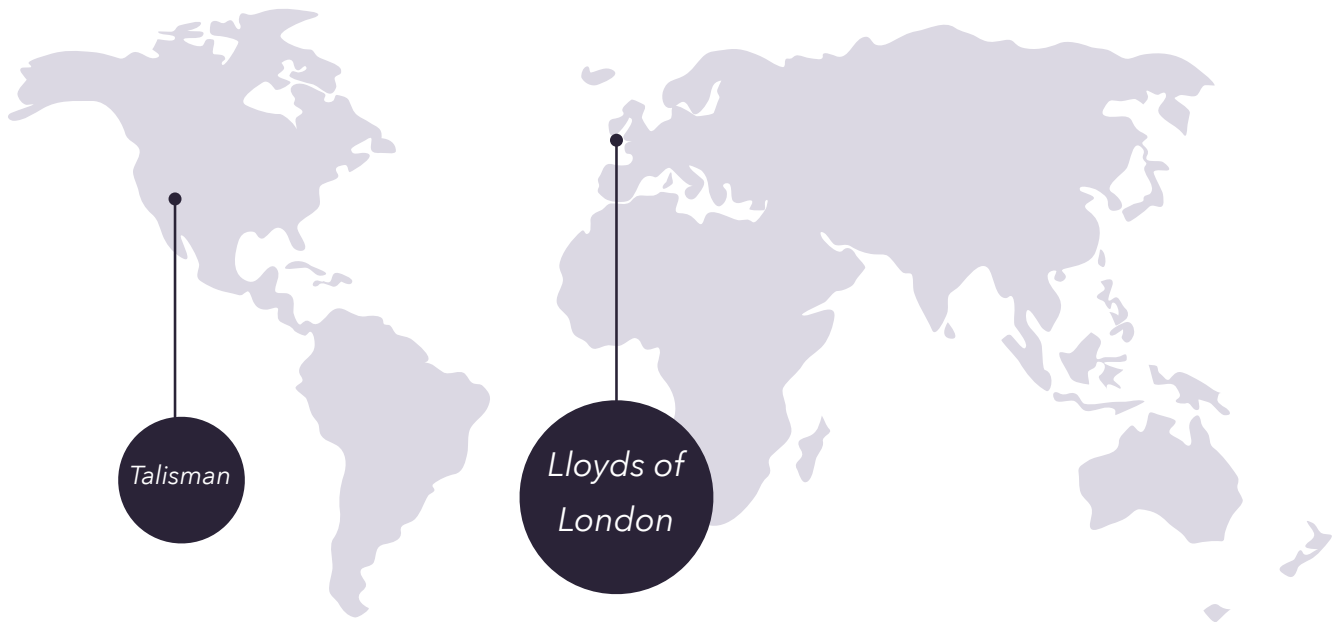
Captives are established as an alternative form of risk management where the objective is insuring the risk of its parent company or group, customers, members, or association. This structure is becoming a more practical and popular means through which companies can protect themselves financially while having more control over how they are insured and benefiting from underwriting profits and special tax treatment.

It is hard to identify a major corporations that does not have at least one captive insurance company. Some corporations have multiple captives that serve different roles. For instance, a corporation may have one captive that primarily covers the corporations general liability, environmental liability, and product liability and then another that insures employee benefits such as workers compensation and healthcare¹

Captive insurance is regulated differently than standard insurance structures. The key purpose of insurance regulation is to protect policyholders first and foremost, as well as investors and other stakeholders. A captive is different from a commercial insurance company, because it just serves its parent company. Therefore, captives are regulated differently than traditional insurance companies that serve the public. Like traditional insurance companies, captives are regulated by the state in which its headquarters are located.²

¹ Exert: Riser Adkisson LLP, Planing and Practices. <http://www.captiveinsurancecompanies.com>

² NAIC "Recent Developments in the Captive Insurance Industry"



REGULATORY

The captive insurance market continues to remain “resilient, effective, efficient and profitable,” with rising premiums and lower combined ratios compared with the traditional insurance market as it further expands to cover evolving risks. A.M. Best Co. Inc.

SPONSORED

CAPTIVE

A Sponsored Captive is created by a legal entity that does not have to be an insured of the captive. The insureds who's risk are underwritten by the captive are called participants. The insureds are required to pay an access fee but do not have to pay in capital in return for ownership. [Appendix A, Talisman Casualty Structure](#). This captive can also be structured to have separate underwriting cells as a means of limiting exposure from different risk classes. IRS

guidance on the treatment of these arrangements can be found here: <https://www.irs.gov/pub/irs-drop/n-08-19.pdf>

LICENSING

Talisman's license number is [#124507] [Appendix B, Certificate of Authority](#). The state of Nevada NRS-694-C. <http://doi.nv.gov/licensing-search/company/?id=124597> Talisman's NAIC # is 15446. [Appendix C, NAIC Code](#).

Talisman's capacity is only gained by ceding risk to reinsurers appearing on the US Treasury department list of admitted reinsurers. <https://www.fiscal.treasury.gov/fsreports/ref/suretyBnd/lloyds-list.pdf>

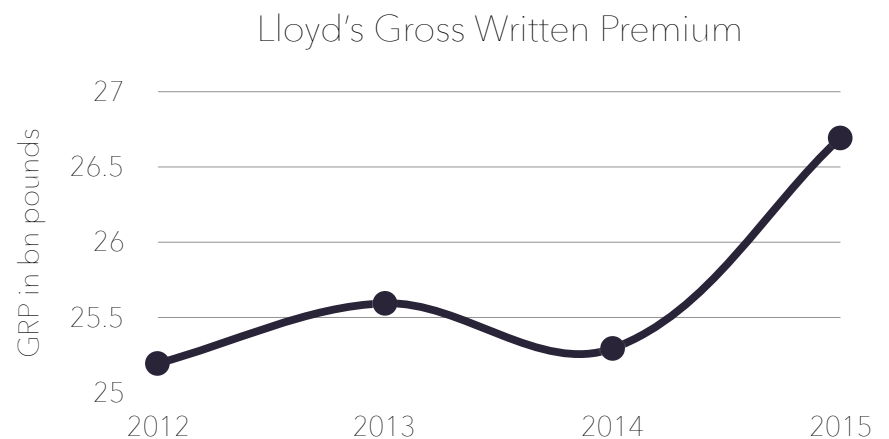
Talisman is not required to file rates with state insurance departments therefore it has the flexibility to design insurance packages that closely aligns the needs of principals and owners.



STRUCTURE

Nevada law states in NRS 694C.195(2)(j)(3) Formation: The amount of security provided must not be less than the reserves associated with those liabilities which are not fronted or reinsured pursuant to subparagraph (1) or (2), including reserves for losses, allocated loss adjustment expenses, incurred but not reported losses and unearned premiums.

Talisman has chosen to cede risk to comply with NRS694C.195(2)(j)(3) 100% to Underwriters at Lloyd's of London. The coverage allows bonds up to \$10,000,000 backed by A rated security. Specifically, the security behind Talisman bonds is rated AM Best (A), Fitch (A+), and Standard and Poor's (A+). Even in the unlikely event of Talisman insolvency or being placed into rehabilitation by regulators, the Lloyd's coverage will still pay all valid claims that would otherwise have been settled with Talisman. Lloyd's is a significant insurer in the United States where their premium of nearly twelve billion makes it one of the largest domestic writers.

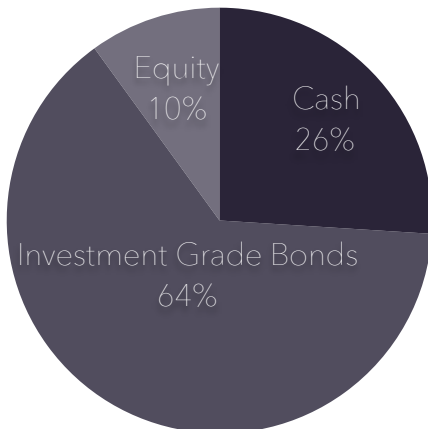


THE LLOYD'S SECURITY

Lloyd's unique capital structure, often referred to as the "chain of security", provides excellent financial security to policyholders and capital efficiency to members³

FIRST LINK - SYNDICATE LEVEL ASSETS

All premiums received by a syndicate are held in its premium trust funds and are the first resource for paying policyholder claims from that syndicate. Funds are generally held in liquid assets to ensure that liabilities can be met as they fall due. Profits are not released until full provision has been made for future liabilities. The reserves for future liabilities of each syndicate are subject to annual independent audit and actuarial review.



SECOND LINK - MEMBERS FUNDS AT LLOYD'S

Each member, whether corporate or individual, must provide capital to support its underwriting at Lloyd's. In accordance with the FSA regime, each managing agent produces an Individual Capital Assessment (ICA) stating how much capital it

requires to cover its underlying business risks at a 99.5% confidence level. The Corporation reviews each syndicate's ICA to assess the adequacy of the proposed capital level. When agreed, each ICA is then 'uplifted' by 35% to ensure capital is in place to support Lloyd's ratings and financial strength. This uplifted ICA, known as the syndicate's Economic Capital Assessment, is used to determine the level of capital required by the syndicate's members to support their underwriting. The capital is held in trust as readily realisable assets and can be used to meet any Lloyd's insurance liabilities of that member but not the liabilities of other members.

THIRD LINK - CENTRAL ASSETS

The Corporation's central assets are the third level of security. The Central Fund is available at the

A.M. Best believes that Lloyd's maintains a strong level of risk adjusted capitalization and that there is sufficient tolerance for the market to withstand a significant stress scenario without threatening its solvency.

discretion of the Council of Lloyd's to meet any valid claim that cannot be met by the resources of any member. It is funded by members' annual contributions and subordinated debt issued by the Corporation. The Council of Lloyd's regularly reviews the central assets target and the level of contributions.

³ Lloyd's Chain of Security 2009, Three Layers of Financial Backup



SURETY MARKET CHALLENGES AND OPPORTUNITIES

Talisman Casualty Insurance Company was formed to address underserved areas of the surety sector. Following the last recession many changes took place in the way bonds were underwritten and the amount of capacity offered.

Many quality contractors found themselves paying higher premium rates, having to spend additional money on reviewed or audited financial statements, and in some cases lost their support. This created an opportunity to allow these contractors to form a captive insurance company and bypass the bureaucracy and expense of dealing with the standard market.

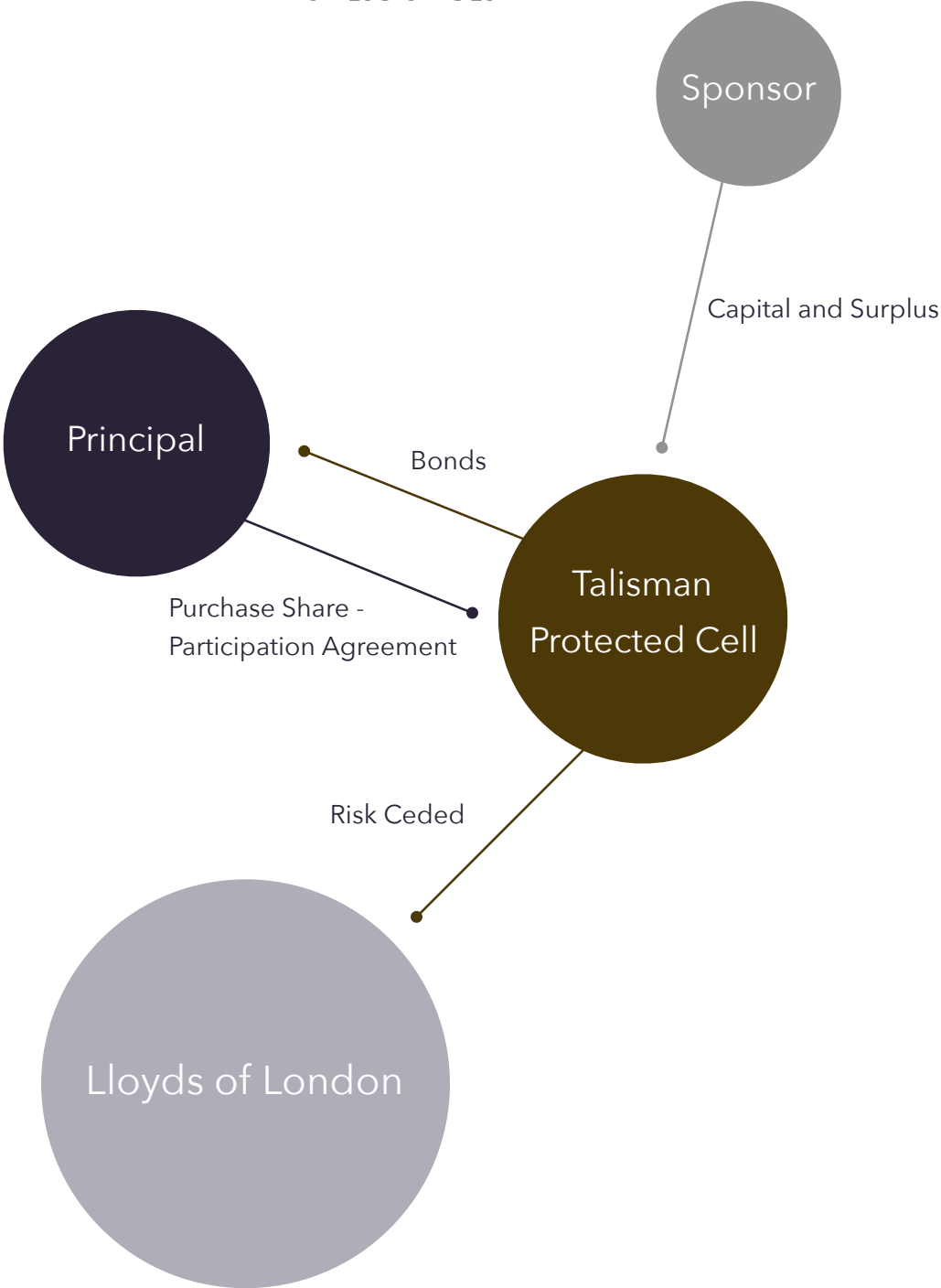
THE TALISMAN PHILOSOPHY

We believe the character is more important than credit. Honest hardworking contractors who produce quality work can seem hard to come by in today's construction environment particularly where large prime contractors must select many subcontractors who they have never done business with. Bonding has been seen as a way to give assurance that the contractor is of the caliber the owner/obligee expects. However, having a bond does not mean the contractor will be easy to work with, honest, or working within an appropriate scope of work relative to their experience. Talisman's underwriters and risk managers have all worked in the construction industry first and they bring that knowledge into

their insurance work. We make every effort to get to know each one of our captive participants and monitor their work closely. We do not simply look at a balance sheet rather, we take time to call references, closely read their contracts, understand their level of sophistication in bidding, and look at their overall reputation in the industry. We believe in taking an active roll in projects we bond. We request reports from our principals and reach out to project managers, architects, and other owner representatives to make sure that work is of acceptable quality, on schedule, and the contractor is coordinating properly with other trades. We also insure that their subcontractors are being paid timely and treated fairly

and we will spot check vendors and suppliers to insure that the accounts are in good standing. Construction is a risky business and over the years the liability has shifted significantly to the contractor. Talisman believes that collaboration with owner/obligees is the best approach. When problems arise it takes good communication, fair investigation of the facts, and pragmatic business decision to avoid costly contractor terminations and legal proceedings. Talisman is not looking to insure every contractor that has an acceptable balance sheet, we are looking to partner with those who share our philosophy.

APPENDIX A
STRUCTURE



APPENDIX B

**Certificate
of
Authority**

STATE OF NEVADA
DEPARTMENT OF BUSINESS & INDUSTRY
DIVISION OF INSURANCE
Carson City, Nevada

Nevada ID #: **124597**
THE **Talisman Casualty Insurance Company, LLC.**
Incorporated in the State of **Nevada**
Home office at **Las Vegas, Nevada**
having duly qualified, is hereby licensed to transact:

****SPONSORED CAPTIVE ****

*insurance business within the State of Nevada until terminated at the request of the insurer or suspended or
revoked by the Commissioner of Insurance.*



Dated at Carson City, Nevada this 24th
day of _____ January _____, 2014

Commissioner of Insurance

APPENDIX C



February 14, 2014

John Maloney
Talisman Cas Ins Co LLC
271 Plymouth Ave
Brightwaters, NY 11718

Dear John Maloney:

This letter will serve as verification of the NAIC company code and group code that the NAIC assigned your company and established you as the company's current financial statement contact. The following codes are to be used when submitting any statements or correspondence to your state insurance department or to the NAIC. The NAIC Company Code and NAIC Group Code are intended to be the NAIC Database identification numbers only and their issuance does not imply any approval of or authorization for your company.

Company Code: 15446
Group Code: 0000
Group Name:

Please notify the NAIC of any changes in company demographics, company name, data, mailing address, contact person, and state of domicile, group code and name, president or phone number. Notification should also be sent when a dissolution, liquidation, receivership, merger or acquisition occurs.

If you have any questions regarding your NAIC company code or group code, please contact

Jennifer Heinz, Data Administrator III
(816) 783-8605
Email: JHeinz@NAIC.org

Important Note Regarding this NAIC Code:

At this time the NAIC has not included Protected Cell Captive Insurers in its searchable online database.

EXECUTIVE OFFICE • 444 North Capitol Street, NW, Suite 701 • Washington, DC 20001-1509 p | 202.471.3990 f | 816.460.7493
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816.842.3600 f | 816.783.8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • 48 Wall Street, 6th Floor • New York, NY 10005-2906 p | 212.398.9000 f | 212.382.4207
www.naic.org

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