TALISMAN

Underwriting Plc

Report – July 2014

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Talisman Underwriting Plc
Report – July 2014

1. Introduction

The directors are pleased to report that the 2011 underwriting year of account has closed with a profit of 6.13% of capacity which is an improvement on the mid point forecast (4.97%) of 12 months ago. Much of the year's profit was generated in US dollars and the strength of sterling was not helpful nor the continuing low interest rates.

The current forecast for the 2012 underwriting year of account is a profit in the range of 3.92% to 10.09% of capacity with a mid point of 7.00%. We would expect the final result to be an improvement on the mid point but much will depend upon the exchange rate existing at the time the account closes, allied to the amount of redundant reserves that can be released.

The current forecast for the 2013 underwriting year of account is a profit in the range of 2.17% to 9.94% of capacity with a mid point of 6.05%. The year benefited from a low level of catastrophic events and subject to the usual caveats, it is thought likely to close with a profit towards the higher end of the range.

The 2013 calendar year was outstanding for the Lloyd's market with profits reaching £3.20billion (2012 £2.77billion). The combined ratio was 86.6% (2012 91.1%) and gross written premium increased by 2.4% over 2012. The return on capital for the market was 16.2% (2012 14.8%). As good as these results are they should be seen in the context of a year in which there were few major claims for the Lloyd's market. There was little exposure to the typhoon in the Philippines or the severe flooding and windstorms in the UK and the rest of Europe. This result was achieved despite investment returns being historically low.

The overall result for Lloyd's was greatly assisted by another strong performance from prior year reserves, where actual claims experience became more favourable than that projected. The release of £1.57billion (2012 £1.35billion) is a significant part of the overall profit and camouflages the actual trading conditions.

Low interest rates have also led to the insurance market attracting substantial levels of capital from sources which, historically, have not invested in the insurance industry. This additional capital, combined with a satisfactory claims experience, has caused increased competitive pressure on rates which is expected to continue throughout the year.

The need for underwriting discipline is paramount in a competitive environment and the choice of syndicates selected reflects the businesses in which we have the greatest confidence. Challenges and opportunities normally go hand in hand and the syndicates we support are those that we believe can evolve and develop their businesses in the current challenging market.

The chart which we reproduce below, is published by Beazley plc and shows the rating indices applied to renewal business. It demonstrates how rates have evolved since 2001 and shows that all classes of business measured have remained above that base point. The figures for 2014 are for the first half of the year and reflect the increased competition in the reinsurance sector.

Business Class	2001	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Property	100	124	140	137	128	135	130	134	142	146	146
Reinsurance	100	150	191	200	187	204	198	205	216	210	190
Marine	100	130	140	131	123	131	127	127	127	121	114
Speciality Lines	100	177	177	168	158	157	155	154	159	163	165
A & H	-	-	-	-	-	100	100	101	101	100	112
Total	**100**	**147**	**155**	**149**	**140**	**144**	**141**	**141**	**146**	**147**	**145**

*Figures at 30/6/2014

Further comment on each class is given later in the report.

Participation in the annual capacity auctions at Lloyd's has historically been the way to acquire additional participation rights on syndicates. As most members of Lloyd's now trade as companies or limited partnerships the focus for the controlled growth of the company has changed to that of acquiring underwriting vehicles that become available for sale.

As reported last year, in July 2013 we completed the purchase of Seven Underwriting LLP with a capacity of £567,481. In January 2014 we completed the purchase of John Stevens LLP with a capacity of £1,194,445. The purchase price paid in these transactions is a reflection of the pipeline profits and capacity value net of tax. Whilst benefiting from the capacity acquired we expect the pipeline profits purchased to exceed the estimates projected at the time of purchase.

2. Underwriting Performance

Talisman seeks to outperform the Lloyd's market, endeavouring to do so without excessive exposure to such risks as those detailed in the Realistic Disaster Scenarios which can be found in Section II. Our record, as demonstrated in the table below, is self-evident. These results represent the return on capacity.

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
Estimated	2012	7.00	6.65
Estimated	2013	6.05	4.69

Results for all closed years include movements in prior years and underwriting expenses.

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) 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

It is intended that the dividend for the 2011 year of account will be divided for payment in July and December 2014.

4. Result for the 2011 Year of Account

The 2011 underwriting year of account closed at 31 December 2013. Talisman's underwriting portfolio produced a profit of 6.13% of capacity which compares well to the overall market at 4.02%. The early part of 2011 saw claims from heavy rainfall in Australia, earthquakes in New Zealand and the earthquake and Tsunami that devastated North East Japan. There followed a series of tornadoes in the US with significant claims arising from the heavy flooding in Thailand during October.

The final result for any year is constructed of three key parts namely pure underwriting profit, releases from the back years and investment income. We estimate that the releases from reserves amount to about 3.7% of capacity and investment income approximately 1.8% which suggest that the pure underwriting profit is not as good as might be presumed at first glance.

Of the 16 syndicates supported by Talisman, 14 were profitable and two made losses. The most profitable syndicates were 386, 6106 and 609 with profits of 21.1%, 19.2% and 14.6% respectively. Losses were declared by syndicates 218 and 958 of (-12.6%) and (-12.01%).

Whilst a loss was always anticipated on Syndicate 218 it is disappointing that the reserves needed to be strengthened by 4.8% bearing in mind the remedial work undertaken since 2010. The loss on Syndicate 958 is in line with the initial projections and is due to the cost of catastrophes affecting the year.

Overall the 2011 year has progressed well since the initial profit projection of 1.79% at the end of quarter five and has produced a satisfactory result in a year that suffered from considerable catastrophes activity outside the USA.

5. Forecast for the 2012 Year of Account

The most notable events in 2012 were Superstorm Sandy in the USA and the wrecking of the cruise ship Costa Concordia which struck a reef off the coast of Italy.

It is noteworthy that in the two and a half years since the partial sinking the loss has developed into the most costly and complicated salvage exercise ever encountered. The recent failure of one of the buoyancy chambers attached to the side of the vessel delayed the removal of the wreck and increased costs further. Fortunately, most of this extra cost falls on reinsurers outside of Lloyd's or on syndicates we do not support.

As previously projected, the result for the the 2012 underwriting year of account should be an improvement on 2011 with the current mid point profit being 7%.

With all previous years now reinsured into the 2012 year of account a significant part of the investment income contained within this forecast will be earned during this calendar year. Syndicates invest most of their funds in short duration bonds (less than two years), but any unanticipated or sudden increase in interest rates could have a detrimental effect on the investment earnings if bond prices fall at year end.

Syndicates maintain a consistent reserving policy and a further redundancy of reserves for historic claims should benefit the account when it finally closes at 31 December 2014.

6. Forecast for the 2013 Year of Account

For the first forecast for the 2013 underwriting year of account at the end of quarter five to be in the range of 2.17% to 9.94% is very encouraging and is a reflection of the low level of catastrophes during the year.

Many policies still remain on risk although exposure to most major losses in the USA reduces following the renewals in July.

The best performing syndicates will be those with high risk catastrophe exposures and Talisman's modest participation on Syndicates 6104 and 6106 will enhance the overall result. The portfolio's exposure to major catastrophes, as detailed in Section II, demonstrates the balance of risk to reward that is pursued on behalf of shareholders, a policy that has served the company well.

Rates were under pressure in many sectors during 2013, and the focus on underwriting for profit rather than income will result in many syndicates not reaching their budgeted level of income during the year.

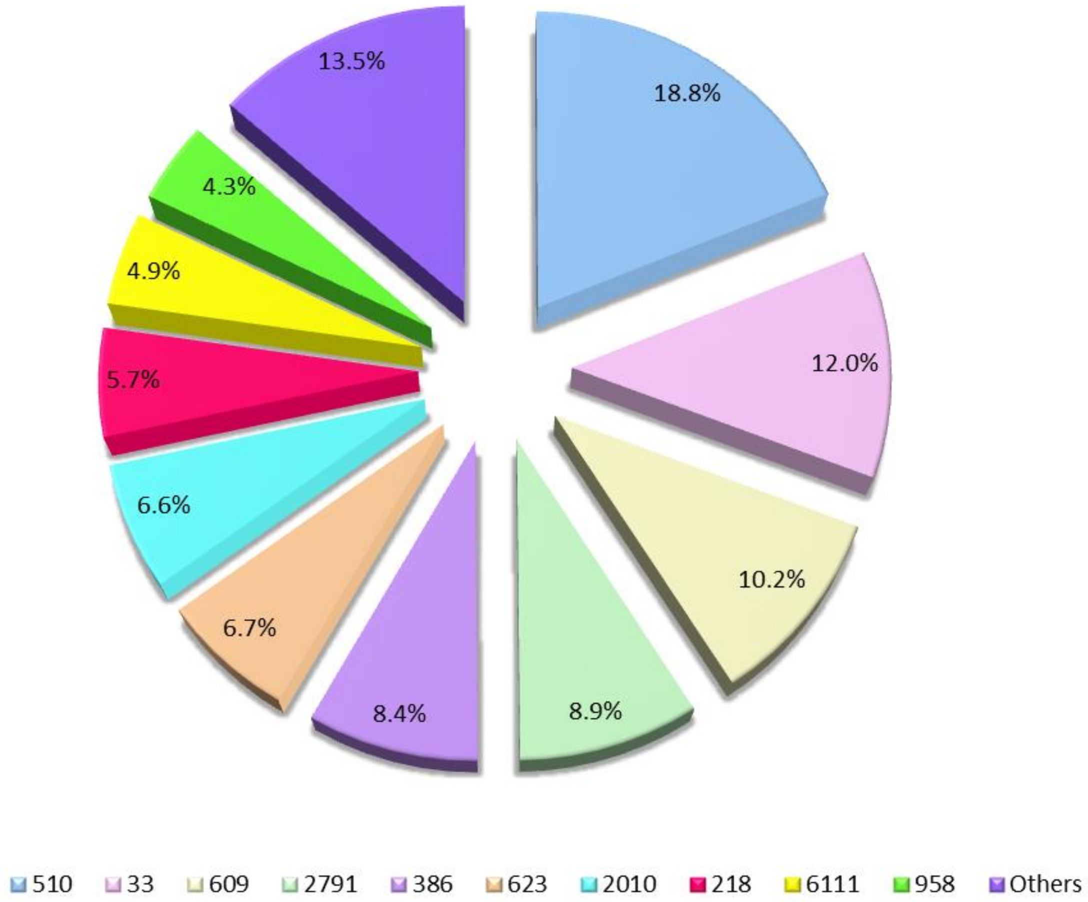
The 2013 year of account should deliver a good profit however we must remind ourselves that the outcome is due to a low level of catastrophe activity. If claims experience had been more in line with traditional patterns, then the projected result would be lower.

7. Portfolio Planning

Talisman – Syndicate Split 2014

The principal syndicates supported in 2014 are illustrated below in capacity order.

Full details are given in Section II.



In planning the portfolio for Talisman the directors take a long term view and do not expect to make major changes each year. In fact, the shortage of capacity for sale in the auctions would make that difficult to achieve. Prices for most syndicates have increased annually, such that the portfolio has a value, using the weighted average prices for the 2013 auctions, of £8.43m primarily arising from the seven largest syndicates supported.

Capital spent buying syndicate capacity reduces the amount available to support actual underwriting. We are therefore keen to support mainstream syndicates on a limited tenancy basis with no cost of entry such as Ark 6105 and Catlin 6111 and maintain a limited position on catastrophe syndicates 6103 and 6104.

Whilst we have shied away from supporting new syndicates we do monitor them carefully and will in time support those that we believe will enhance the value and performance of Talisman.

8. Market Trends and Renewals

Overview

Reinsurance rates have been under pressure for the last 18 months due to excess capital in the market and increased competition from alternative forms of capital including insurance linked securities.

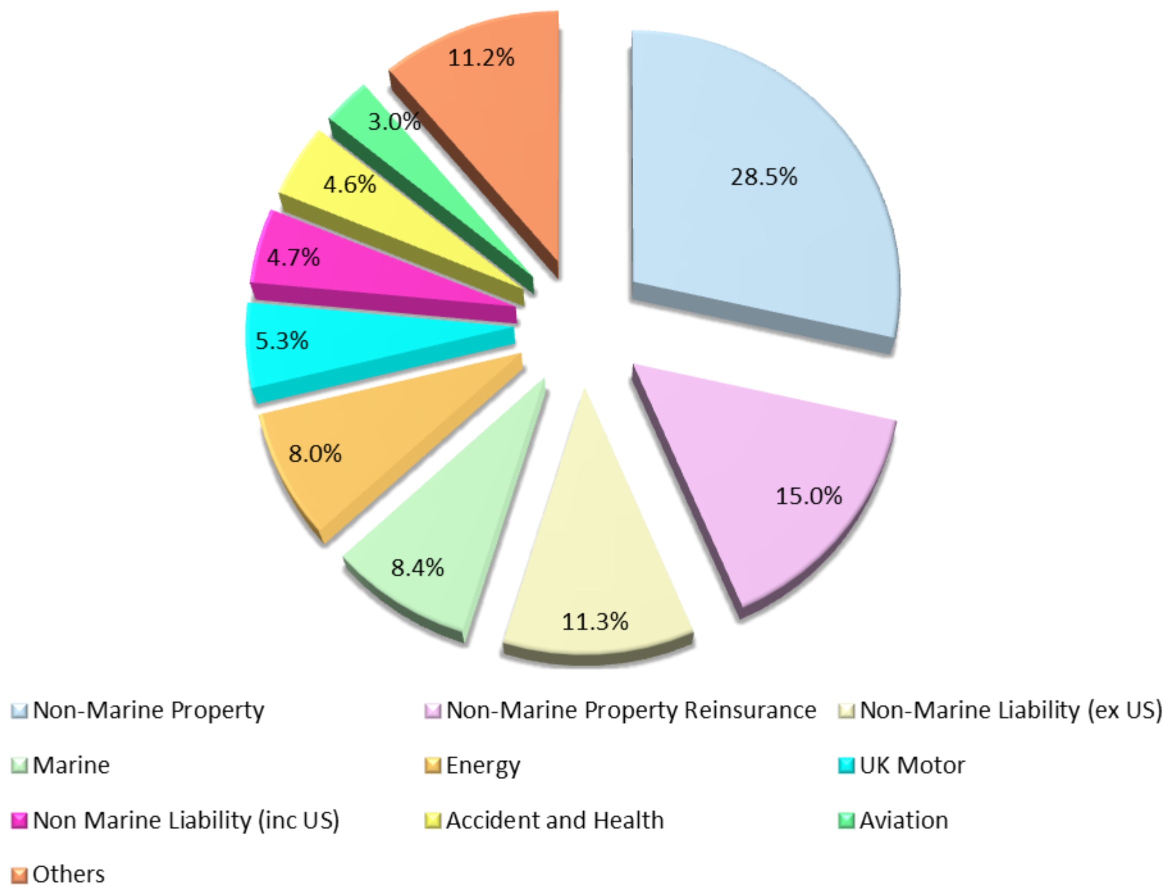
As we move through the cycle pressure is on most other sectors to reduce rates and is not helped by many insurers looking to diversify into new classes of business thus adding further competition.

The position is partially mitigated by the ability of insurers to reduce their spend on reinsurance cover or to purchase more cover for the same price as last year.

Whilst pricing is under pressure rates are generally at a level where profits can be made particularly on renewal books and for small and medium sized property risks eminating from the USA.

Income written will probably fall in 2014 as underwriters become increasingly selective but with operating costs being maintained.

The chart below shows Talisman's spread of business across the major classes with further comments following.



Non-Marine Property

In the aftermath of Superstorm Sandy the market improved in the USA during 2013 both with respect to rates and volume. However, as we move through 2014 a reduction in the rate of increase may occur as the year develops. Whilst direct business will benefit from lower reinsurance costs and trading may be more difficult than in 2013, the outlook remains positive for this important class of business.

Away from the US, poor performing binders are not being renewed and there has been a general improvement in performance across the market. Price competition and a greater appetite for business from domestic markets are eroding margins for larger risks, despite some loss activity in the engineering, mining and power generation sectors.

Non-Marine Property Reinsurance

The 2013 year benefitted from the absence of hurricanes crossing the US coast line coupled with a relatively low level of major catastrophes. Lloyd's was mainly affected by losses in the North American continent including the floods in Canada, tornadoes in the Mid West and hurricanes in Mexico. Pricing is now more competitive due to an excess of capital and the growth in insurance linked securities (ILS) which are attracted to the reinsurance business by recent profitable performance and lack of correlation with other asset classes.

Whilst a threat to our historic business, ILS can only compete where the risk can be modelled and priced accordingly. Conventional reinsurance remains the only product that suits the majority of buyers.

The international book was experiencing good rating levels following the losses in 2011 affecting Japan, New Zealand and Australia however those increases have now come to an end.

Non-Marine Liability

Although the market had anticipated improved trading conditions during 2013 they failed to materialise. The situation was not helped by those looking to grow into this sector as part of their programme of diversification. Given the long tail nature of this class Talisman seeks to minimise its exposure in the US due to its litigious environment but has a significant exposure to the international market through Syndicate 386 which has been a consistent good performer.

Marine

The marine market continues to be competitive. The major loss during 2013 was the sinking of the MOL Comfort Container Ship. Fortunately, the increasing costs associated with Costa Concordia have been mitigated by better experience elsewhere. Indeed Costa Concordia highlighted the difficulties that wreck removal of large vessels can present especially in environmentally sensitive areas. The ever increasing size of ships and cargo values poses both challenges and opportunities for this class.

Energy

The good performance of the energy sector in 2013 was driven by offshore energy which benefitted from another year without a significant windstorm in the Gulf of Mexico. Onshore, the position was the reverse with a number of large losses. Going forwards there is increasing competition offshore and it should never be forgotten that the Gulf of Mexico is prone to extreme weather events. Onshore, due to the poorer experience, rates are more stable.

UK Motor

The UK motor market has gone through a transformational year due to legal changes. In particular the LASPO Act, passed in April 2013, meant a ban on referral fees which is aimed at reducing fraudulent claims and reducing legal fees for personal injury claims. This in turn should reduce insurers costs. It will take some time to establish how successful these reforms have been.

Talisman's involvement in the motor market is principally through Syndicate 218 which for the 2011 account produced a loss of (-12.6%). This included a deterioration of (-4.8%) on the reserves held for unsettled claims. The Managers, in conjunction with independent actuaries, believe no further strengthening should be necessary. Whilst the forecast for 2012 remains marginal we believe 2013 will show a return to profit consequent upon the changes they have made to the business. During 2013 the syndicate was acquired by Aquiline Partners and we consider this a further positive step in the recovery of this syndicate's fortunes. The syndicate now concentrates on commercial and fleet business and is only involved with private motorists where cherished vehicles are involved or through schemes.

Accident and Health (A&H)

Lloyd's syndicates have been successful in bringing new business in this class to the market. A&H is attractive for many businesses as it has low capital requirements, diversification advantages and historical good performance. Some of the best books have been very profitable, although brokers have sought to increase commission rates. This, and the movement of underwriting teams around the market, has increased "churn". In the UK, the Financial Conduct Authority is looking closely at suitability of some types of personal accident products and managing agents may need to strengthen some procedures to avoid regulatory action.

Aviation

The Major loss during 2013 was from the Asiana Airlines 777 crash at San Francisco International Airport in July. There was also the Intelsat Satellite launch failure in the Pacific.
Aviation represents a small percentage of the business written by the syndicates Talisman supports and while rates remain low that position is unlikely to change. Writing aviation business provides diversification but the rating has become dependent on the safety record of the major airlines. With exposures continuing to rise in terms of fleet values and passenger numbers the business is likely to become more volatile and suffer from increasing attritional claims.

Consequent to the shooting down of Malaysia Airlines flight MH17, with its tragic loss of life, and coupled with recent events at Tripoli airport in Libya, rates for war risks are expected to increase at the next renewal.

9. Conclusion

As described in this report there is an influx of capital looking for a better return in a low interest rate environment. For many, an investment in insurance provides further portfolio diversification due to the low correlation with traditional asset classes. The benign claims experience and consequent good results only encourages more competition.

Lloyd's, however, is a world leader in the global insurance market and is planning to deal with current trading conditions and the future. In doing this it has to consider the global economic environment and the role it, the managing agents and brokers have to play in order to meet its strategy as part of Vision 2025.

Global economic activity is picking up but the picture is mixed with uncertainties continuing in many economies. Whilst positive growth has been reported in some of the large developed countries there are signs that the economic recovery could become more broadly based. However, until that recovery becomes sustained non life premium growth will be minimal due to suppressed demand. Insurers are understandably looking for opportunities in the fast growing developing economies and Lloyd's has similar intentions.

In developing economies there is a large gap between economic and insured losses and insurers should be able to grow by demonstrating their value to individuals, governments and businesses in these underinsured areas. There are also new areas of risk to consider including cyber risk and those related to climate change.

The debate for the UK's future in the EU continues. Withdrawal from the EU would be damaging for Lloyd's as it would remove the ability to transact some of its business currently undertaken on a "passport" basis.

In a more difficult market, as described earlier in this report, insurers need to focus more than ever on underwriting discipline. Lloyd's has continued to outperform its peers largely driven by superior underwriting results.

Going forward Lloyd's has to seek to increase its business in developing economies but, equally it must work hard to maintain and improve its position in existing markets where it has a significant presence. In achieving this syndicates will need to consider their distribution channels and work closely with the broker community.

The success of Talisman is very much dependent upon the managing agents and the results of their syndicates. They in turn need to work hard with the brokers. This all occurs under the supervision of the Corporation of Lloyd's who must maintain the performance management framework to ensure appropriate underwriting standards together with claims management remains in place, such that, while it fulfils the market oversight role, new business is attracted to Lloyd's.

Furthermore, the Corporation has a key role in developing new markets and ensuring the necessary licences are in place together with other regulatory requirements. In undertaking this work it will also obtain market intelligence which it must distribute to those who can benefit from it.

Managing agents are a vital component in enabling Talisman to operate in a profitable manner. They must deliver an appropriate business plan which is achievable and manage the overall business whilst maintaining the highest ethical standards. They need to develop their businesses, both in new and existing markets, where they see opportunities in line with their intended strategy. They will need to build on their distribution channels and work with brokers for the benefit of the business. In looking to the future they will need to ensure that they attract develop and retain the best talent for the success of their business.

Whilst managing agents may develop their own distribution channels the significant majority of business at Lloyd's comes through the broking community. Indeed, in the insurance sector 37% of business comes from the largest four brokers and 61% from the largest ten. In the reinsurance sector the largest four are responsible for 72% of business brought to Lloyd's. It is therefore imperative that managing agents work with brokers to help to deliver innovative risk management solutions for their clients. They need to identify attractive new market segments and risks and to develop new products consistent with their clients' needs emanating from both developed and developing economies.

There are always forces at work in any market. However, those who succeed in business have to plan and drive their business in the direction that is of most benefit to their capital providers.

This is a time for the managing agents to demonstrate their ability to achieve that objective. At Talisman we choose who we support very carefully and will only support those in whom we have confidence to steer the correct route rather than being pushed by the forces around them.

The forecasts for 2012 and 2013 are very encouraging. However, this is not a time to be complacent but rather a time when the company's capital must be used in a prudent manner in anticipation of greater opportunities ahead.

SECTION II

10. Syndicate Participations

Detailed below are the Company's syndicate participations for the 2011 account onwards.

Syndicate	Underwriter	Managing Agent	Allocated Premium Limit			
			2011 £	2012 £	2013 £	2014 £
33	P Lawrence	Hiscox	1,962,158	2,071,165	2,166,166	2,451,786
218	M Bacon	Equity	1,250,000	1,125,000	1,125,000	1,173,406
318	D Eales	Beaufort	657,499	657,499	657,499	675,112
386	D Harries	QBE	1,200,000	1,357,809	1,457,809	1,710,327
510	Various	Kiln	3,004,240	3,288,577	3,469,966	3,839,978
557	D Huckstepp	Kiln	150,539	0	0	26,554
570	R Harries	Atrium	450,000	N/A	N/A	N/A
609	R Harries	Atrium	1,150,000	1,700,000	1,860,000	2,087,628
623	N Maidment	Beazley	1,100,000	1,100,000	1,152,788	1,366,911
727	M Meacock	Meacock	327,723	327,723	327,723	327,723
958	S Gargrave	Canopius	1,200,000	1,200,000	942,866	880,765
1969	N Jones	ANV	0	0	0	46,608
1991	D Wright	R&Q	N/A	N/A	0	29,246
2010	J Hamblin	Cathedral	1,000,000	1,000,000	1,212,400	1,346,823
2121	I Maguire	Argenta	514,358	514,358	550,000	711,387
2525	D Dale	Asta			59,048	109,048
2791	R Trubshaw	MAP	1,750,000	1,750,000	1,810,000	1,827,707
4020	N Bonnar	Ark	588,477	588,477	N/A	N/A
6103*	R Trubshaw	MAP	0	0	10,000	23,273
6104**	P Lawrence	Hiscox	0	0	110,000	190,000
6105***	N Bonnar	Ark	N/A	N/A	327,236	621,380
6106****	S Beale	Amlin	100,000	100,000	100,000	N/A
6111*****	N Burkinshaw	Catlin		500,324	795,000	991,771
TOTAL			**16,404,994**	**17,280,932**	**18,133,501**	**20,437,433**
		No. of Syndicates	**16**	**15**	**18**	**20**

* 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 6106 provides a specific catastrophe account quota share reinsurance of Amlin Syndicate 2001.
***** 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.
Participation on Syndicates 557, 1969 and 1991 is consequent to the purchase of John Stevens LLP. Their continued support for 2015 will be reviewed later in the year.

Talisman is not involved with any syndicates in run-off.

11. Syndicate Pre-emptions and De-emptions

The pre-emption and de-emption of syndicates affecting Talisman for 2014 are detailed below.

Syndicate	Underwriter	Managing Agent	Pre-Emption %	De-Emption %
33	P Lawrence	Hiscox	5.26	
623	N Maidment	Beazley	8.00	
958	S Gargrave	Canopius		20.45
2121	I Maguire	Argenta	20.00	
2791	R Trubshaw	MAP		11.94

12. Syndicate Purchases

The following capacity was purchased during the 2013 auctions for support in 2014.

Syndicate	Managing Agent	Capacity £	Cost £
33	Hiscox	25,000	16,055
386	QBE	190,000	203,749
510	Kiln	200,000	60,628
609	Atrium	90,000	51,819
958	Canopius	120,000	12,207
2010	Cathedral	40,000	19,839
2525	Asta	50,000	19,095
2791	MAP	150,000	89,355
		Total	737,124

13. Acquisition of John Stevens LLP

The following capacity was acquired by the purchase of John Stevens LLP.

Syndicate	Managing Agent	Underwriter	Capacity £
33	Hiscox	P Lawrence	145,296
218	Equity	M Bacon	48,406
318	Beaufort	D Eales	17,613
386	QBE	D Harries	62,518
510	Kiln	Various	170,012
557	Kiln	D Huckstepp	26,554
609	Atrium	R Harries	137,628
623	Beazley	N Maidment	121,893
958	Canopius	S Gargrave	35,308
1969	ANV	N Jones	46,608
1991	R&Q	D Wright	29,246
2010	Cathedral	J Hamblin	94,343
2121	Argenta	I Maguire	51,387
2791	MAP	R Trubshaw	101,742
6103	MAP	R Trubshaw	23,273
6104	Hiscox	P Lawrence	30,000
6105	Ark	N Bonnar	25,322
6111	Catlin	N Burkinshaw	27,296
		Total	1,194,445

14. Business Split Analysis

The table below shows the estimated business split of Talisman for the 2014 Year of Account. As a comparison, we show the market average for all capacity available to third party capital providers and the figures for 2012 and 2013. The company continues its bias towards Non Marine Property and Non Marine Property Reinsurance.

Risk Category	Talisman %			Market Average %		
	2014	2013	2012	2014	2013	2012
Non Marine Property	28.5	27.9	26.0	27.7	26.3	25.1
Non Marine Property Reinsurance	15.0	19.6	19.4	17.3	22.7	23.1
Non Marine Liability (Ex US)	11.3	9.0	8.6	9.2	7.4	6.2
Marine	8.4	7.8	7.5	7.9	6.9	7.2
Energy	8.0	7.4	7.1	7.4	6.5	6.8
UK Motor	5.3	6.2	8.4	5.0	5.6	7.5
Non Marine Liability (Inc US)	4.7	3.7	3.1	5.5	4.5	3.3
Accident & Health	4.6	3.9	3.7	4.5	4.2	3.6
Aviation	3.0	3.2	3.5	2.6	2.6	3.1
Professional Indemnity (Ex US)	2.7	2.4	3.0	2.7	2.6	3.1
Professional Indemnity (Inc US)	2.6	2.9	3.2	2.7	2.9	3.2
Pecuniary Loss/ Political Risk	2.4	2.3	2.5	2.7	2.4	2.4
Marine Reinsurance	1.1	0.8	0.7	0.8	0.7	0.6
Non Marine Liability Reinsurance	1.0	1.1	1.4	1.1	1.0	1.3
Space & Satellite	0.8	1.1	1.1	0.7	1.0	1.0
Aviation Reinsurance	0.8	1.0	0.9	0.8	0.8	0.9

15. Realistic Disaster Scenarios (RDS)

The following table illustrates the portfolio's estimated net exposure to a series of catastrophic scenarios that Lloyd's requires all syndicates to calculate each year. Descriptions of each RDS are detailed below. The figures should be treated with some caution, as they are estimates based on assumptions by the managing agents on their likely levels of income, business written and reinsurance purchased for the year.

These figures provide an indication of the potential net cost (not bottom line loss) as a result of each event. The directors of Talisman have regard to the level of exposure recommended by Argenta Private Capital Ltd and also to the aggregate exposure for all syndicates involved with any scenario.

Catastrophe Scenario	Talisman %			Market Average %		
	2014	2013	2012	2014	2013	2012
Two Events	24.9	21.3	21.8	32.2	30.1	31.0
North East Windstorm	13.8	13.4	11.8	17.9	18.7	16.9
Gulf of Mexico Windstorm	13.6	13.1	12.9	17.0	17.7	17.1
Californian Earthquake	12.4	11.5	11.3	15.5	15.0	14.9
Florida Windstorm	11.9	11.9	12.6	15.3	16.4	16.9
European Windstorm	9.2	9.6	7.8	11.4	12.2	10.1
New Madrid Earthquake	8.5	8.8	9.3	10.7	11.0	12.1
Japanese Earthquake	7.7	8.5	7.8	9.1	10.0	9.7
Terrorism	6.8	7.3	6.2	7.8	8.3	6.8
Japanese Typhoon	5.0	5.6	5.3	5.8	6.6	6.6
UK Flood	4.3	4.1	4.7	5.6	5.5	6.0
Aviation Collision	4.1	3.0	3.2	3.9	2.7	3.1
Political Risks	3.6	2.6	2.4	3.7	2.4	2.0
Loss of Major Complex	2.9	2.4	1.7	6.2	5.4	5.1
Marine Event	2.9	2.0	2.2	2.7	1.7	2.2
Liability Risks	2.7	1.9	1.5	3.2	1.8	1.4
Satellite Risks	1.1	1.0	0.9	1.2	1.0	0.9

Realistic Disaster Scenarios (RDS)

Two Events – Syndicates are required to model on an ‘as if’ basis the occurrence of a South Carolina hurricane in the immediate aftermath of a North East US hurricane. Assumes that these events fall in the same reinsurance year and that there has not been sufficient time between events to purchase additional reinsurance protection. Syndicates are required to return losses to both events separately. This provides us with two scenarios: The cost of a North East US hurricane and the combined cost of the two events. Both are shown where they feature in the top seven events for a syndicate.

- North East US Windstorm - A US$78bn Gross property Industry Loss including consideration of demand surge and storm surge from a north-east hurricane making landfall in New York State. The hurricane also generates significant loss in the States of New Jersey, Connecticut, Massachusetts, Rhode Island and Pennsylvania.
- South Carolina hurricane - A US$36bn Gross property Industry Loss from a hurricane making landfall in South Carolina, including consideration of demand surge and storm surge.

North East Windstorm
(See Two Events above)

Gulf of Mexico Windstorm – A US$111 billion Industry Loss from a Gulf of Mexico Hurricane resulting in offshore energy losses of approximately US$4.5 billion and mainland property losses of US$107 billion including the consideration of demand surge and storm surge.

California Earthquake – Syndicates are required to return both of the following scenarios.

- Los Angeles Earthquake - Assumes a US$78 billion Industry Property (shake and fire following) Loss, gross of take-up rates and including consideration of demand surge, from an earthquake causing major damage to Los Angeles.
- San Francisco Earthquake - Assumes a US$78 billion Industry Property (shake and fire following) Loss, gross of take-up rates and including consideration of demand surge, from an earthquake causing major damage to San Francisco.

Florida Windstorm – Syndicates are required to return both of the following scenarios:

- Miami, Dade County - A US$125bn Industry Property Loss, including consideration of demand surge and storm surge, from a Florida Hurricane landing in Miami-Dade County.
- Pinellas County - A US$125bn Industry Property Loss, including consideration of demand surge and storm surge, from a Florida Hurricane landing in Pinellas County.

European Windstorm – Based upon a low pressure track originating in the North Atlantic basin resulting in an intense windstorm with maximum/peak gust wind speeds in excess of 20 metres per second (45 mph or 39 knots). The strongest winds occur to the south of the storm track, resulting in a broad swathe of damage across southern England, France, Belgium, Netherlands, Germany and Denmark. This event results in an estimated Industry Property Loss of Euro 23bn.

New Madrid Earthquake – Assumes a US$47 billion Industry Property (shake and fire following) Loss, gross of take-up rates and including consideration of demand surge from and earthquake causing major damage within the New Madrid Seismic Zone.

Japanese Earthquake – This event is based on the Great Kanto event of 1923 with an estimated Industry Property Loss from this event of Yen 5trn.

Terrorism – Syndicates are now required to complete returns for the two following scenarios.

- Rockefeller Center 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.
- Exchange Place Event - The lower 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.

Japanese Typhoon – This event is based on the Isewan ('Vera') typhoon event of 1959. As a guide, the estimated Industry Property Loss from this event would be Yen 1.5trn.

UK Flood – Assumes an Industry Insured Loss of £6.2bn. This scenario is based on a heavy rainfall event causing extensive flooding of the River Thames and surrounding areas covering 194 km^2 of western London.

Aviation Collision – Assumes a collision between 2 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.

Political Risks – Syndicates are required to return Political Risk loss scenarios that generate losses above a de minimus reporting level set by Lloyd's from time to time. Examples include:

- An economic downturn in South East Asia.
- An economic crisis in South America.
- A political crisis in the Middle East.
- An economic downturn in Turkey.
- An economic downturn in the Russian Federation.
- An economic and social disintegration leading to Civil War in Nigeria

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 Event – Syndicates are required to return both of the following scenarios.

- A fully laden tanker calling at Prince William Sound, Alaska, is involved in a collision with a cruise vessel carrying 500 passengers and 200 staff and crew. The incident involves the tanker spilling its cargo and loss of lives aboard both vessels. Assumes 70% tanker owner / 30% cruise owner apportionment of negligence and that the collision occurs in US waters. Also assumes that the cost to the tanker and cruise vessel owners of the oil pollution is US$2 billion and that there are 125 fatalities, 125 persons with serious injuries and 250 persons with minor injuries (average compensation being US$1.5m, US$2.5m and US$0.5m respectively).
- A US owned cruise vessel is sunk or severely damaged with attendant loss of life, bodily injury, trauma and loss of possessions. Claims to be heard in a Florida court. Assumes 500 passenger fatalities and 1,500 injured persons with average compensation of US$2m and US$1m respectively. Also assumes an additional Protection and Indemnity loss of US$500m for costs such as removal of wreck and loss of life and injury to the crew.

Liability Risks – Syndicates are required to report two internally modelled liability loss scenarios. Although syndicates' scenarios under this heading cannot be accurately aggregated it provides an indication of the maximum impact of a liability loss to a syndicate.

- A professional lines scenario; for example:
    - Mis-selling of a financial product
    - Failure / collapse of a major corporation
    - Failure of a merger
    - Failure of a construction project
    - Recession-related losses
- A non-professional lines scenario; for example:
    - Industrial / transport incident
    - Multiple public / products losses

Satellite Risks – Syndicates are required to return both of the following scenarios.

- A Proton Flare – Assumes that either a single anomalous large proton flare or a number of flares in quick succession results in a loss to all satellites in geostationary orbit. All live exposures in this orbit will be affected by the proton flare. Syndicates should assume a 5% insurance loss to all affected policies.
- Generic Defect – An undetected generic defect in a number of operational satellites has the potential to cause significant losses to the space insurance market. During the time it takes for a generic defect to emerge, many more satellites of the same model/variant may have been launched. Syndicates are required to report on a prescribed set of satellite models and damage levels.

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