Report – July 2016

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Talisman Underwriting Plc
Report – July 2016

1. Introduction

The directors are pleased to report that the 2013 underwriting year of account closed on 31st December 2015 with a pure profit of 12.94% of capacity. This again exceeds the range forecast 12 months ago of between 5.7% to 11.9% with a midpoint of 8.8%. There is a clear trend in the way years of account develop over their three years which is helpful when giving projections for the future. All the syndicates supported by Talisman closed with a profit.

The current forecast for the 2014 underwriting year account is a profit on capacity in the range of 3.9% to 10.3% with a midpoint of 7.2%. As this year is developing in a similar manner to 2013 we would expect the year to close at the upper end of the range.

The current forecast for the 2015 underwriting year account is a profit on capacity in the range of 1.2% to 9.1% with a midpoint of 5.2%. This year of account will not close until 31st December 2017 and many policies remain on risk. Nonetheless we remain optimistic for another good result, based on current data.

The result and forecasts above make for good reading but it should not be forgotten that the claims experience was relatively benign with respect to major catastrophes and that there were meaningful releases of redundant reserves for past claims. In contrast trading conditions have generally become more competitive throughout the period particularly for reinsurance business which has been a main profit earner given the lack of catastrophes.

Whilst the comments above refer to the year of account, Talisman's report and financial statements are on a calendar year basis as are Lloyd's global accounts. In their annual report 2015, John Nelson chairman of Lloyd's commented:

"*In a market undeniably tougher than seen for many years, in 2015 we have had to demonstrate our determination, innovative thinking and ability to adapt and take action.*

The significant pressure on premium rates and exceptionally low investment returns have, naturally had an impact on our results. Low interest rates and low investment returns generally in the capital markets continue to attract additional capital into the sector.

Against this background the profit for the Lloyd's market was reduced to £.2.1 billion (2014 £3 billion); gross written premiums grew by 6% to £26.7 billion; the combined ratio was 90% and return on capital was 9.1%.

In these conditions, these results are creditable and a tribute to the continued skill and professionalism of the Lloyd's market underwriting community. These results are supported by the market's prudent reserving position overall and the consequent significant reserve release in respect of prior years."

Lloyd's continues to outperform its peers and third party capital providers like Talisman continue to do better than the Lloyd's average. The syndicates that Talisman supports remain amongst the best performers in a top performing market.

The prevailing conditions in the insurance market are putting pressure on both insurers and brokers. This has led to some major strategic initiatives by the major brokers, who supply a very significant proportion of the business at Lloyd's, through the introduction of more preferred partner arrangements and facilities both of which help reduce their costs and increase their income. Underwriters need to decide carefully how they choose to be involved with such facilities bearing in mind the skills needed and the impact on their business plans.

The global economic outlook remains challenging but gradual GDP growth should see demand for insurance rise. Whilst excess capital remains available most classes will remain under pressure and competition from insurance linked securities will continue. Consolidation is likely to continue as insurers seek size and relevance in the market, satisfy regulatory demands and be at the forefront of innovation both in developed and new territories.

Introducing new products is also key to Lloyd's, and with cyber threats becoming increasingly prevalent Lloyd's has been a leader in developing insurance solutions for customers and meeting their differing needs.

On 23 June 2016 in an historic referendum the United Kingdom voted to end its membership of the European Union. It is far too early to state clearly the impact on Lloyd's as the formal process of leaving the EU will take two years to implement. The time starts at the point that the UK formally informs the EU that it wishes to leave. During that period Lloyd's will continue to operate within the single market and under current EU rules and regulations. Lloyd's is putting into place its well prepared contingency plan which is designed to ensure it continues to have access to its key European markets and will be working with Governments and regulators on the transition.

Lloyd's made no secret of its preference for the UK to remain in the EU. Of concern are the "passporting" rights that allow syndicates to carry out cross-border business in any European Economic area country. Lloyd's estimates that around £800m or 4% of gross written premium is most likely to be affected by the UK's withdrawal from the single market. Lloyd's centrally will be negotiating vigorously to maintain its trading relationship.

Of immediate relevance is the impact of the strengthening of the US$ relative to Sterling. This, if it continues, will have a positive impact on profits when converted to Sterling. In contrast, exposures are increased when calculated at current exchange rates which will likely increase our capital requirement for 2017. We will have to manage our capital as carefully as ever whilst a high level of volatility and uncertainty exists.

Talisman has grown for 2016 with its premium income limit increasing from £20.9m to £22.2m.This was largely as a result of acquiring Goodhart Underwriting Limited and Leonid Underwriting LLP. We were delighted that in both cases the previous owners took a meaningful part of the consideration as shares in Talisman.

Underwriting at Lloyd's is a high risk business and for that reason we have been very careful with our capital by simply keeping it as cash on deposit at the bank or within the company's Funds at Lloyd's. During 2015 the Board decided that, whilst interest rates continued at such a very low rate, it should consider the appointment of a fund manager, for a part of the cash, with capital preservation being the overriding objective. In July 2015 Ruffer LLP were appointed to manage approximately £2million in their Total Return Fund. Their goal is to produce consistent positive returns in all market conditions. They aim never to lose monies in any 12 month period and to generate returns ahead of the "risk free" alternative of depositing the monies in a reputable bank.

In the 12 months to date Ruffer have fulfilled that objective with a return of 3.1%. Given market volatility during the period, we are satisfied they are fulfilling the mandate given to them of not losing money. The performance and the amount of the funds they manage will be kept under constant review.

2. Underwriting Performance

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
Estimated 31/3/2016	2014	7.16	5.95
Estimated 31/3/2016	2015	5.18	4.24

Results for all closed years include movements in prior years and underwriting expenses including the members agent's fee. Estimates for 2014 and 2015 are from figures published as at 31 March 2016.

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
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	29/7/2016	3.5p	£35.00

It is intended that the second dividend payable on the 2013 year of account will be made during December 2016.

4. Result for the 2013 Year of Account

The 2013 underwriting year of account closed at 31st December 2015 and the syndicates which Talisman supported produced an aggregate pure profit of 12.94% of capacity which was again better than the market average. Investment income was understandably low at around 1.3% whilst the contribution from reserves was around 5%.There was also the benefit from the strong US$ when profits were converted to sterling.

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There were no major earthquakes or windstorms making landfall affecting the year but weather related events including floods, tornadoes, hailstorms and super typhoons produced the largest claims overall. The most significant insured event was in Alberta Canada where flooding followed heavy rainfall.

5. Forecast for the 2014 Year of Account

The current forecast for the 2014 year account is a profit in the range of 3.9% to 10.3% of capacity with a midpoint of 7.2%. Our expectation is a profit at the top end of the range providing the release from reserves is similar to that seen in recent years.

Overall the 2014 year of account has benefited in a similar way to previous years from a lack of major catastrophes but due to falling rates the final profit may not be quite as good. The exchange rates when the account closes will also be a factor as the estimates quoted above were calculated at a rate of US$ 1.44 to £1. The current rate is around US$1.32 to £1, an increase of over 8%, which could improve the bottom line profit by around 1%.

6. Forecast for the 2015 Year of Account

The first forecasts received from managing agents of the performance of their syndicates at 31st March 2016 were an aggregate profit in the range of 1.2% to 9.1% with a midpoint of 5.2%. We would again, on current data, expect the year to close at the higher end of that range.

This account has not suffered from any major natural catastrophes but there were notable man-made events including the explosion at the port of Tianjin in China and Pemex's Abkatun oil platform in the Gulf of Mexico. There were also the high profile losses of Germanwings flight 9525 and Metrojet flight 9268.

As rates continued to soften through the year it should be assumed that the final result will not be as good as the prior year. Further with underwriters being more selective, the income for the year is likely to be lower than for 2014.

Nonetheless the result should be very satisfactory given trading conditions.

7. Portfolio Planning

Talisman – Syndicate Split 2016

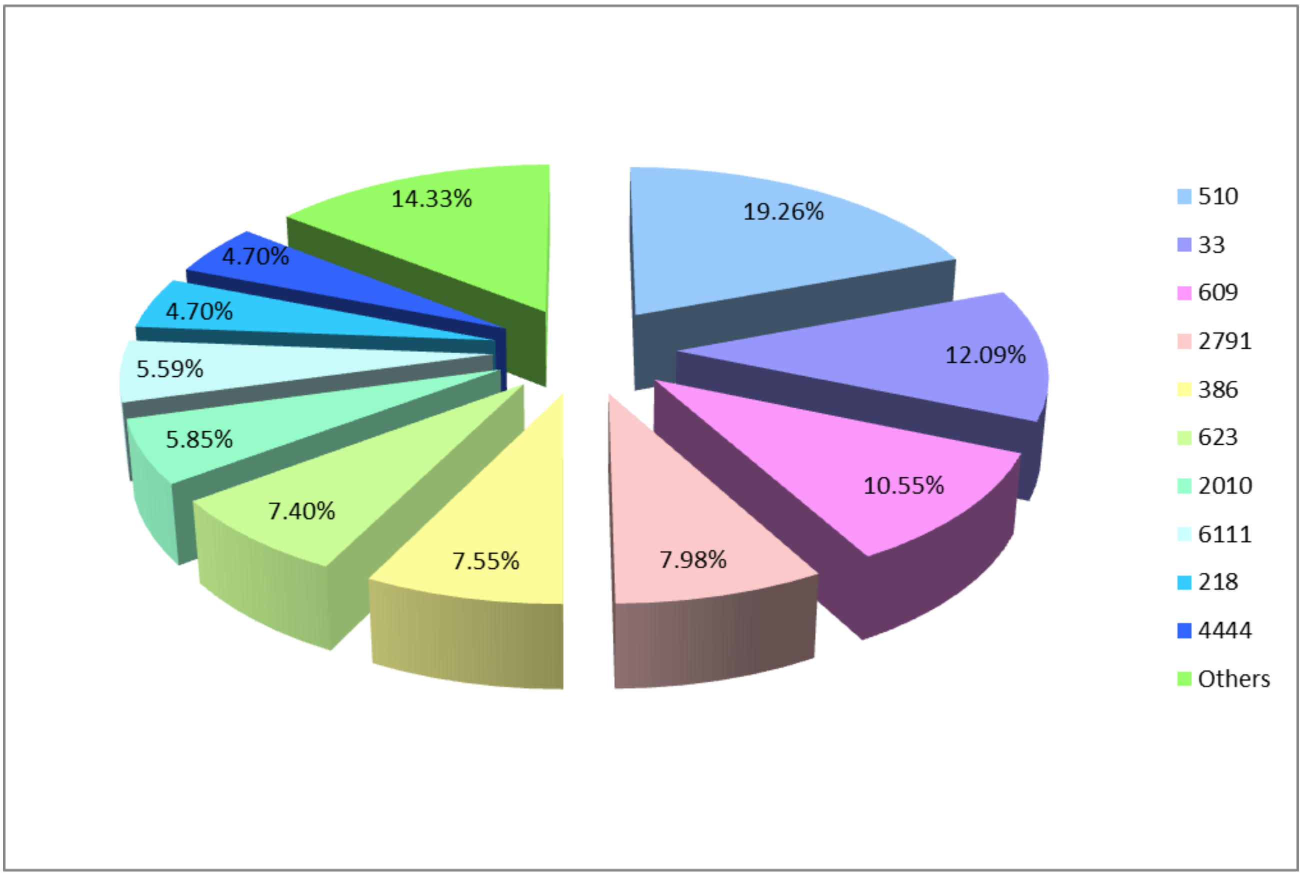
Whilst trading conditions continue to be competitive, many syndicates have a significant amount of spare headroom. We have not seen de-emptions as syndicates usually want to have the ability to respond should circumstances change. As detailed in Section II, seven syndicates pre-empted for 2016 but, other than for the newer syndicates these were for specific reasons where accounts were being expanded due to new products and the recruitment of new teams adding further business lines.

Of note is the new Standard Club Syndicate 1884 which started underwriting in April 2015 and which had a pre-emption of 150%. Talisman only took up a part of that entitlement in accordance with its risk appetite. In contrast, Syndicate 1991 which commenced underwriting for the 2013 account de-empted its capacity due to lack of suitable quality business. Overall, Talisman's exposure to "new syndicates" is just 1.9% of the overall portfolio and it is likely to remain around that level until trading conditions improve.

The capacity acquired through the purchase of Goodhart Underwriting Limited and Leonid Underwriting LLP fitted well into the portfolio and the auction was not used other than to dispose of two participations obtained through the acquisitions.

The principal syndicates supported in 2016 are illustrated below in capacity order.

Full details are given in Section II.



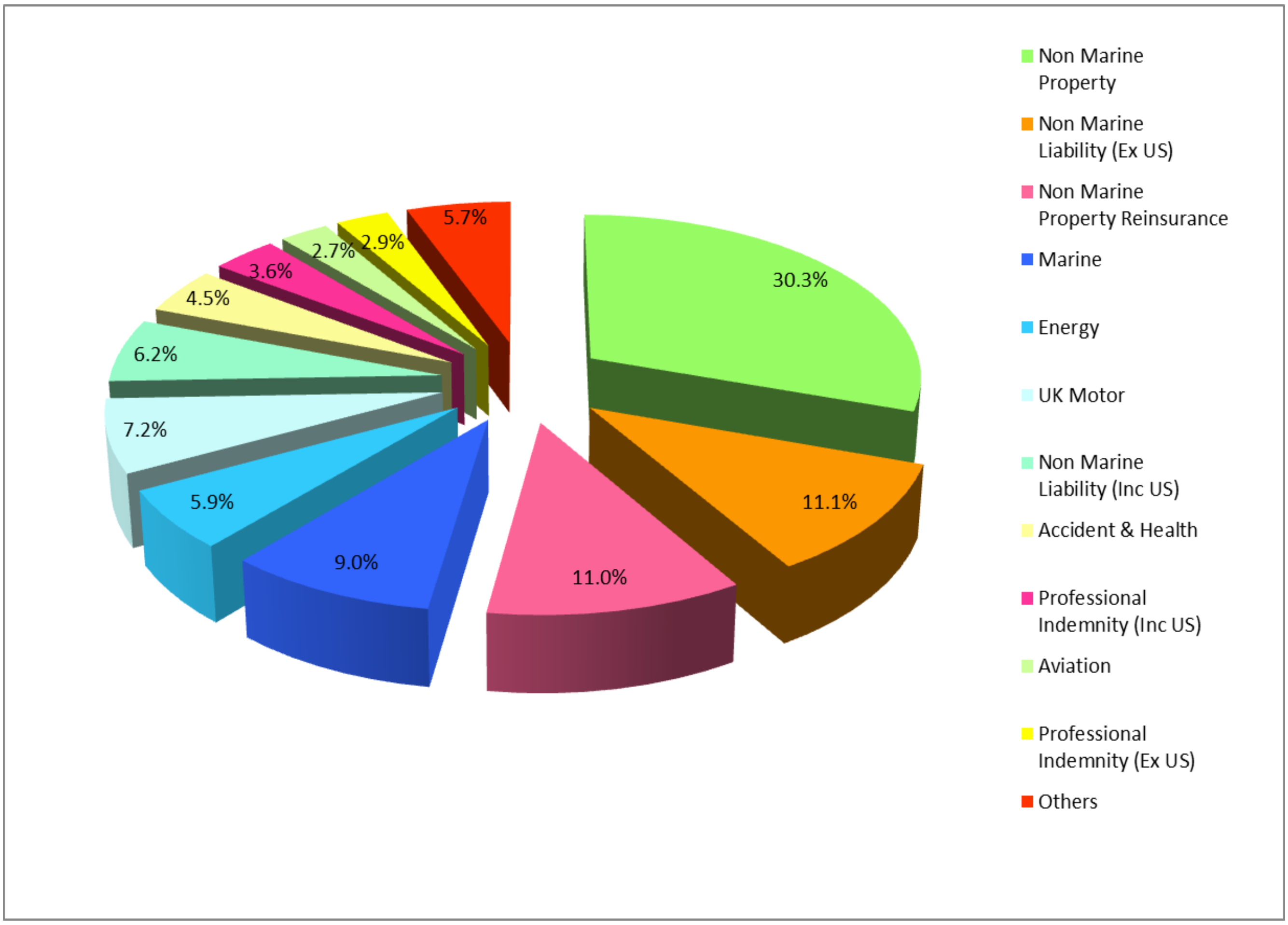
8. Market Trends and Renewals

Overview

Insurance and the reinsurance markets continue to suffer from an oversupply of capital and a continuing fall in rating conditions and a widening of terms and conditions. Until competitors start making losses it is difficult to visualise any improvements. Low interest rates encourage institutions to look for a better rate of return and insurance as an uncorrelated asset class continues to be attractive.

Almost every area of insurance and reinsurance is intensely competitive. New capital and alternative capital continue to enter the market and existing capital is increased by retained earnings. London market business is especially difficult as brokers are seeking to increase the proportion placed under broad facilities in order to save costs. At the same time local markets are increasing their appetite for risk and London orders can be subject to reduction or cancellation. Some syndicates are responding by moving closer to the source of business, opening offices in the locations around the world where Lloyd's has developed a platform, such as in Singapore, or by writing business through binding authorities in local markets.

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



Non-Marine Property

Property business is written worldwide with a significant proportion coming through cover holders and other delegated authorities. Any growth is tending to come from binding authorities or US excess surplus lines as pricing pressure is most intense for those risks where unit prices are high. Competition in most domestic markets is also increasing due to the surplus of capital.

However, the lack of major catastrophes has maintained the profitability of this class. The most significant loss for 2015 is likely to be the explosion at the port of Tianjin in China last August.

The abundance of surplus capital will keep the property market competitive until losses start to be made. As ever, Lloyd’s advantage will come from looking for more specialised areas of risk.

Non-Marine Property Reinsurance

The property reinsurance account has again experienced limited natural catastrophe losses although there were some notable weather related losses during 2015 including the freeze in the USA, windstorm in Northern Europe and cyclone damage in Australia.

Unsurprisingly, prices are still falling due to the availability of capital and the profitable results in recent years. Fortunately there is some evidence that the rate of decline has reduced in some of the major markets, in particular the US rather than non US. Terms and conditions are also important and there has been some widening of terms. In the absence of any reduction in the availability of capital or a major catastrophe event the trend is not likely to change. Talisman will not be seeking to increase its exposure to this part of the market until the inevitable occurs.

Non-Marine Liability

The casualty market like most others is suffering from an abundant supply of capital that is putting pressure on rates. However, within the casualty market there is more opportunity for new innovative products with cyber being the most topical helped by an increasing demand from first time buyers. Policy terms and conditions increasingly require policyholders to take steps to mitigate and manage their exposure. In addition insurers are looking at the culture of the organisation seeking protection as regards data privacy, as well as bringing in third party security experts. Total cyber premiums were $2.5billion in 2015 and are expected to reach $20billion by 2025. Lloyd’s through the performance management department (PMD) has introduced new requirements to ensure that Lloyd’s exposure to cyber risk is better understood and quantified.

The performance and growth of the casualty market are closely related to economic conditions. Talisman continues to focus on the non-US territories.

Marine

The fortunes of the marine market are closely linked to the global economy and underwriters need to see improved trade volumes and insured values before rates are likely to reverse the downward trend. As a result of falling demand ship owners have been scrapping older vessels which should have a positive effect on results.

Pirate activity off the Horn of Africa brought some opportunities for underwriters. Records suggest that the frequency of hijacks peaked in 2012 and the number of attacks has fallen rapidly since then but with rates responding in the same direction.

Energy

Low oil prices have resulted in a significant reduction in demand for insurance as activity by the major producers is more focussed in low cost production areas. The value of rigs has declined and with it the cost of insurance. As in so many classes capital and capacity remain plentiful.

Similarly, with oil and gas producers restricting exploration and investment, demand has fallen in those areas resulting in an increased pressure on other classes, particularly onshore. The results of the energy market can be volatile and strong underwriting discipline is essential in this class.

UK Motor

Lloyd’s motor book does not mirror the wider UK market and plays a very small part in the highly commoditised private car sector. Talisman’s key exposure to the Lloyd’s market is through Syndicate 218 which produced a small profit for 2013. This syndicate seeks its business through its broker network rather than the internet and pursues business in more specialised areas such as classic car, agriculture, fleet and commercial business. It has reported year on year rate increases of up to 15% on motorcycles, 6% on fleet and 5% on commercial vehicles.

There is no doubt that the managers have made significant changes to the business and have a defined strategy that will reduce costs and thus improve profits for 2017 onwards. The market overall continues to be very competitive with no end to the high cost of claims for personal injury and car hire.

Aviation

The significant claims during 2015 included the deliberate downing of Germanwings Flight 9525 in March, the crash at the Shoreham Air Show in August and the loss of Metrojet Flight 9628 in October, all of which resulted in tragic loss of life.

The space insurers also had a difficult year with the most notable loss being the Proton launch failure in May.

The class overall is not profitable and until capacity reduces profits remain unlikely. Talisman has only a minor exposure to this class.

9. Conclusion

Where does all this lead to one wonders for as much as we seem to be trading profitably there are clear warning signals that trading conditions are not as we would like them to be. This is the same message we were presenting last year and it is important to put that message into the context of both Lloyd’s and the syndicates we support and not the market generally.

Lloyd’s is unique in that it is a market of individual businesses backed by a mutual central fund that requires the corporation to play a supervisory role. This covers not only performance and risk management but also profitable growth and innovation whilst safeguarding the central fund and capital providers. This also makes Lloyd’s a capital efficient place to trade which benefits Talisman.

Access to all major international insurance markets, including emerging markets through its global licence network, is a key objective as detailed in Vision 2025 published in 2012.This will take time and involve lengthy discussions with legislators and regulators in the countries pursued each year. Lloyd’s also wants to see overseas trade capital bringing business to the market so as to increase its share in those countries. Lloyd’s is a globally admired brand whose strength needs to be optimised and reputation protected for the benefit of all stakeholders.

At this point in the cycle costs are more important than ever and Lloyd’s is aiming to offer its underwriting expertise in the most efficient manner to meet client and broker needs whilst supplying world class claims management. A major project known as the London Market Target Operating Model is underway to help provide this.

Individual syndicates are setting their strategies to match the environment they operate in. These include broadening distribution networks in other countries and expanding product portfolios by developing innovative lines that meet clients evolving needs.

Syndicates are also developing strategic partnerships in emerging markets. Consortia are becoming an increasing feature in the market as the ability to be a larger scale participant plays to the strength of the Lloyd’s market when competing against large non-Lloyd’s insurers that have historically dominated particular specialist classes.

To conclude, market conditions are soft, fuelled by ongoing over capitalisation and there are no real signs at this time that suggest conditions will improve in the near future. In this environment it is critically important that syndicates remain highly relevant risk partners to brokers, cover holders and clients and remain ambitious, agile and innovative. Underwriting discipline remains key, emphasising good risk selection and ability to say no to unacceptable business even if it means a fall in overall income for the syndicate.

We have always maintained that syndicate selection is paramount and we will not deviate from that. Our portfolio is focused on seven of the best managed and underwritten syndicates supplying seventy percent of our business. Further, we have confidence that all the syndicates we support can manage their businesses through this period to the benefit of capital providers. It must however be understood that the potential for loss is greater than in previous years if there were to be a more normal level of claims for catastrophes.

SECTION II

10. Syndicate Participations

Detailed below are the Company's syndicate participations for the 2013 account onwards as at 1 January for each year of account. The numbers are not adjusted for subsequent acquisitions.

Syndicate	Underwriter	Managing Agent	Allocated Premium Limit			
			2013 £	2014 £	2015 £	2016 £
33	M Krefta	Hiscox	2,166,166	2,451,786	2,499,807	2,679,807
218	M Bacon	ERS	1,125,000	1,173,406	962,725	1,041,759
318	D Eales	Beaufort	657,499	675,112	705,112	737,190
386	D Harries	QBE	1,457,809	1,710,327	1,503,464	1,673,010
510	Various	Tokio Marine Kiln	3,469,966	3,839,978	4,004,978	4,268,917
557	D Huckstepp	Tokio Marine Kiln	0	26,554	0	0
609	T Drysdale	Atrium	1,860,000	2,087,628	2,182,506	2,337,564
623	N Maidment	Beazley	1,152,788	1,366,911	1,344,134	1,640,447
727	M Meacock	Meacock	327,723	327,723	352,723	352,723
958#	M Duffy	Canopius	942,866	880,765	949,636	N/A
1884	R Dorey	Charles Taylor	N/A	N/A	200,000	330,000
1969	N Jones	Apollo	0	46,608	281,838	329,927
1991	D Wright	R&Q	0	29,246	109,623	97,463
2010	R Williams	Cathedral	1,212,400	1,346,823	1,257,221	1,297,266
2121	I Maguire	Argenta	550,000	711,387	771,387	947,855
2525	D Dale	Asta	59,048	109,048	109,048	129,127
2791	R Trubshaw	MAP	1,810,000	1,827,707	1,676,582	1,769,482
4444	M Duffy	Canopius	N/A	N/A	N/A	1,041,425
6103*	R Trubshaw	MAP	10,000	23,273	27,126	31,416
6104**	M Krefta	Hiscox	110,000	190,000	250,000	218,560
6105***	N Bonnar	Ark	327,236	621,380	670,929	N/A
6106****	S Beale	Amlin	100,000	N/A	N/A	N/A
6111*****	J Gale	Catlin	795,000	991,771	1,072,805	1,239,962
TOTAL			**18,133,501**	**20,437,433**	**20,931,644**	**22,163,900**
		No. of Syndicates	**18**	**20**	**20**	**20**

\# Syndicate 958 merged into Syndicate 4444 for the 2016 year of account which were previously written in parallel.
* Syndicate 6103 provides a specific catastrophe account quota share reinsurance of MAP Syndicate 2791
** Syndicate 6104 provides a specific catastrophe account quota share reinsurance of Hiscox Syndicate 33
*** Syndicate 6105 provides a quota share reinsurance of specific accounts of ARK Syndicate 4020
**** Syndicate 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 and they are not traded through the auction process.

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 2016 are detailed below.

Syndicate	Underwriter	Managing Agent	Pre-Emption %	De-Emption %
218	M Bacon	ERS	2.85	
623	N Maidment	Beazley	12.00	
1884	R Dorey	Charles Taylor	150.00	
1969	N Jones	Apollo	12.50	
1991	D Wright	R&Q		11.09
2121	I Maguire	Argenta	12.50	
2525	D Dale	Asta	18.41	
4444	M Duffy	Canopius	5.40	

12. Acquisitions

During the last three years, Talisman has now made a total of six acquisitions. Since our last report, Talisman has purchased Goodhart Limited and Leonid Underwriting LLP. In both cases the consideration was in part an issue of shares.

The following capacity was acquired by the purchase of Goodhart and Leonid.

Syndicate	Managing Agent	Goodhart	Leonid	Total Capacity £
33	Hiscox	125001	54999	180000
218	ERS	23388	26716	50104
308	Tokio Marine Kiln	87354		87354
318	Beaufort	6543	25535	32078
386	QBE	118631	50915	169546
510	Tokio Marine Kiln	142091	121848	263939
557	Tokio Marine Kiln		8346	8346
609	Atrium	111801	43257	155058
623	Beazley	74873	45678	120551
958	Canopius	26651	11731	38382
1969	Apollo	11430		11430
2010	Cathedral	13262	26783	40045
2121	Argenta	15000	56151	71151
2791	MAP	39028	53872	92900
6105	Ark	10929	7088	18017
6111	Catlin	24264	9522	33786
		830246	542441	1372687

The capacity acquired on Syndicates 308 and 557 was sold at auction in 2015 for the sum of £16,586.

13. Business Split Analysis

The table below shows the estimated business split of Talisman for the 2016 Year of Account. As a comparison, we show the market average for all capacity available to third party capital providers and the figures for 2014 and 2015.

Risk Category	Talisman %			Market Average %		
	2016	2015	2014	2016	2015	2014
Non Marine Property	30.3	30.6	28.5	29.0	29.3	27.7
Non Marine Liability (Ex US)	11.1	11.5	11.3	9.4	9.6	9.2
Non Marine Property Reinsurance	11.0	11.2	15.0	12.9	13.0	17.3
Marine	9.0	8.9	8.4	8.6	8.2	7.9
UK Motor	7.2	6.4	5.3	6.3	6.7	5.0
Non Marine Liability (Inc US)	6.2	5.3	4.7	7.5	6.3	5.5
Energy	5.9	7.4	8.0	5.3	6.3	7.4
Accident & Health	4.5	4.5	4.6	4.2	4.2	4.5
Professional Indemnity (Inc US)	3.6	3.0	2.6	3.9	3.4	2.7
Professional Indemnity (Ex US)	2.9	2.4	2.7	3.0	2.7	2.7
Aviation	2.7	2.8	3.0	2.3	2.4	2.6
Pecuniary Loss/ Political Risk	2.4	2.4	2.4	2.5	2.7	2.7
Marine Reinsurance	1.0	1.2	1.1	0.9	1.0	0.8
Non Marine Liability Reinsurance	1.0	1.1	1.0	1.8	1.5	1.1
Space & Satellite	0.7	0.8	0.8	0.7	0.8	0.7
Aviation Reinsurance	0.6	0.8	0.8	0.6	0.7	0.8

14. 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 %		
	2016	2015	2014	2016	2015	2014
Two Events	20.5	22.5	24.9	25.5	27.2	32.2
Californian Earthquake	12.3	11.6	12.4	14.4	13.6	15.5
North East Windstorm	12.2	11.7	13.8	15.5	14.4	17.9
Gulf of Mexico Windstorm	12.0	11.2	13.6	14.6	13.4	17.0
Florida Windstorm	11.1	10.5	11.9	13.8	12.8	15.3
New Madrid Earthquake	9.1	8.5	8.5	11.1	10.1	10.7
Terrorism	9.0	7.4	6.8	10.5	8.0	7.8
European Windstorm	7.6	7.6	9.2	9.2	9.4	11.4
Japanese Earthquake	7.6	6.3	7.7	9.0	7.5	9.1
Aviation Collision	6.0	4.7	4.1	5.4	4.3	3.9
Loss of Major Complex	5.9	5.0	2.9	9.4	7.3	6.2
UK Flood	4.9	4.8	4.3	5.7	5.5	5.6
Japanese Typhoon	4.9	4.2	5.0	6.0	5.1	5.8
Marine Event	4.3	3.3	2.9	4.1	3.2	2.7
Liability Risks	4.2	3.2	2.7	3.7	3.0	3.2
Political Risks	3.9	3.6	3.6	4.1	3.9	3.7
Satellite Risks	2.4	1.9	1.1	2.4	1.8	1.2

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. They assume 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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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

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

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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