TALISMAN UNDERWRITING PLC

Report – June 2017

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Talisman Underwriting Plc
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1. Introduction

It is very pleasing to be able to report that the 2014 underwriting year of account closed on 31 December 2016 with one of the highest returns on capacity achieved in recent years of 13.66%. This was due to the combination of favourable claims experience, reserve releases and significant foreign exchange gains. This exceptionally good result again exceeds the range forecast 12 months ago of between 3.9% to 10.3%. All the syndicates supported produced profits with the exception of Motor Syndicate 218 which is referred to later in this report.

The current forecast for the 2015 underwriting year of account is a profit on capacity in the range of 3.3% to 10.1% with a mid-point of 6.7%. We would expect the year to close at somewhere between the mid-point and best estimate.

The first forecast for the 2016 underwriting year of account reflects the more competitive trading conditions, which we have discussed for the last two years, with a result of between a loss of 2.5% and a profit of 5.8% with a mid-point profit of 1.7%. This year of account will not close until 31 December 2018 and many policies remain on risk. However on current data we would expect the account to close at the better end of the range.

Throughout the period on which we are reporting, trading conditions have become more difficult and it is only due to the lack of catastrophes, releases from reserves and the strength of the US$ that we are fortunate enough to enjoy these results.

Lloyd's declared results for the market, for the calendar year ended 31 December 2016, on 30 March 2017. At £2.1billion the accounted profit was almost identical to the previous year although the constituent parts of the results are very different and indicative of the increasing strain on the insurance industry.

The combined ratio (the sum of incurred losses and expenses divided by earned premium) increased from 90.0% to 97.9% and only three of the eight main sectors managed to deliver an underwriting profit, these were reinsurance, energy and aviation.

To compensate for the poorer underwriting result in 2016 Lloyd's benefitted from an improved investment return and was flattered by the gain arising out of the fall in the value of Sterling.

The accident year result (i.e. the result before taking into account the movements on old years) was a loss for all sectors. The motor market experienced deterioration on old years due to the change on the Ogden discount rate, which is used to calculate the lump sum compensation due for personal injury claims, but all other sectors were able to release reserves.

Catastrophic loss activity was higher than we have seen for a number of years although it was not more than might be considered average. The good news for shareholders in Talisman is that the syndicates to which we allocate capacity have performed better than the Lloyd's market average and in fact the wider insurance and reinsurance market to which Lloyd's can be compared.

The makeup of these results demonstrates clearly the extremely challenging underwriting conditions which we would like to think cannot go any lower and that change must come soon. Until it does underwriting discipline is paramount which means saying no when rates, terms and conditions fall below an economic level but also seeking out profitable opportunities.

In his Chairman's statement, John Nelson stated "*the challenge for Lloyd's is as ever to respond to change calmly but with determination – applying knowledge and expertise acquired over 329 years to the environment we find ourselves in today, and providing our customers with what they need to help them navigate their way through it.*

However, the rate of change, driven by technology and an increased recognition that the business models in the insurance sector need to change, means that we must remain committed to the modernisation of the market. This means embracing new technological developments, coupled with an absolute determination to make the Lloyd's platform more user friendly, more efficient and more cost effective. This will require brave thinking and brave decisions over the next few years."

Overall, pricing reductions do appear to be slowing. Nevertheless, given that capital supporting the industry remains plentiful, there is little to suggest a halt in the decline in the short term. With 2016 seeing a return to less benign levels of major loss activity, the forecast results from syndicates should further promote the underwriting discipline that is so essential.

Brexit and Lloyd's Europe

Lloyd's has announced that it will establish a new insurance company in Brussels which will allow the Market's syndicates to continue to write business in the 27 countries of the European Union (EU) and the three of the European Economic Area (EEA) after the UK has left the EU. It is expected that Lloyd's Europe will be in place and able to accept new and renewal business by 1 January 2019. In 2015, around £3billion (or 11%) of Lloyd's gross premium income was generated in the EU and the EEA. Although some of this premium is not subject to passporting rights, Lloyd's estimates that without the access to the single market provided by the new insurance company, half of this £3billion of premium income is at risk.

Multinational companies may buy a single insurance policy for their global operations. Without Lloyd's Europe, Lloyd's syndicates would not be able to participate in a policy that included assets in European countries in which the individual syndicate was not an established insurer. However, other major insurers, which are established in Europe, would be able to underwrite such business and the Lloyd's syndicates would lose out by not being able to offer cover. There is no impact on existing business or new or renewal business written in the interim while the UK remains a full member of the EU. Lloyd's trading rights outside the EU are not impacted by the decision to leave the EU.

Once the UK leaves the EU, UK insurers (including the Lloyd's market) will continue to be subject to Solvency II, with the resultant requirements being incorporated in UK law. Major changes to the regulatory regime are not anticipated.

Ruffer Annual Performance Report 2016

A part of Talisman's Funds at Lloyd's (£1.975m at 1/1/16) is managed by Ruffer. An extract from their report to the Directors is given below.

The Ruffer portfolio appreciated almost 14% in 2016. The last few months of the year were striking for the progressively greater optimism that developed about the outlook for the global economy in contrast to the first eight months of 2016, when investors were spooked by fears of a hard landing in China, deflation in Europe and, of course, the consequences of Britain's departure from the EU. *This previously gloomy viewpoint had underpinned expectations that* *interest rates and inflation would remain suppressed for a long time - all to the benefit of fixed income investments which reached multi century low yields in July 2016.*

The change of sentiment can be ascribed to a growing realisation that economic activity was improving across developed economies including the EU and Japan. In the US, where the economy was already making good progress towards achieving the Federal Reserve's mandate of maximum employment and stable prices, President Trump's promises to pursue a pro-growth agenda featuring big cuts in corporation tax and greater federal government spending, added fuel to the perception that, for the first time since the financial crisis, the global economy was in a period of coordinated economic growth.

Holding effective offsetting investments is central to our absolute return approach. We have been encouraged by the performance dovetailing between some of our key asset classes, which has given us some comfort that we are well positioned for the road ahead, which we believe will be defined by either the normalisation or failure of monetary policy, both of which will have ramifications for asset prices.

2. Underwriting Performance

Results for all closed years, recorded as a percentage of capacity, include movements in prior years and underwriting expenses including the members agent's fee are detailed below. Estimates for 2015 and 2016 are from figures published as at 31 March 2017.

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
Estimated 31/3/2017	2015	6.70	4.22
Estimated 31/3/2017	2016	1.68	0.42

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

It is intended that the dividend payable on the 2014 year of account will be made during July and December 2017.

4. Result for the 2014 Year of Account

The 2014 underwriting year of account closed at 31st December 2016 and the syndicates which Talisman supported produced an aggregate pure profit of 13.66% of capacity which was again better than the market average. Investment income was understandably low at around 1.9% but was better than might have been anticipated. The contribution from redundant claims' reserves was around 4.7% and there was also the benefit from the strong US$, when profits were converted to sterling. Overall it was the lack of major claims and catastrophes that produced this excellent result.
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5. Forecast for the 2015 Year of Account

The current forecast for the 2015 year account is a profit in the range of 3.3% to 10.1% of capacity with a midpoint of 6.7%. Our expectation is a profit at the better end of the range provided that the release from reserves is similar to that seen in recent years. Our members' agent, Argenta Private Capital Limited, is of the view that the core group of syndicates supported by Talisman continue to have a strong reserving position.

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.

The 2015 account has now assumed the reinsurance to close of the 2014 and prior year liabilities and movements on those years during 2017 will have a significant effect upon the final result. The outlook for investment rates is slightly more optimistic than for a number of years, with the US Federal Reserve increasing rates for only the third time since the financial crisis. Although the inflation rate in the UK is likely to exceed the Monetary Policy Committee's target of 2% in the next few months, there has not yet been an increase in UK base rates. Interest rate increases are generally a good thing for insurers, although there can be a short term negative impact as the value of a bond portfolio goes down as interest rates increase. For this reason, the majority of syndicates' investments are currently held in shorter dated stock. We expect a modest uptick in the return on investments achieved by syndicates over time, although in the medium term such increases are unlikely to reach the levels that were enjoyed before the financial crisis.

6. Forecast for the 2016 Year of Account

The first forecasts received from managing agents for the performance of their syndicates at 31st March 2017 were in the range of a loss of 2.5% to a profit of 5.8% with a midpoint of 1.7%. We would again, on current data, expect the year to close at the higher end of that range.

As rates continued to soften through the year it is evident 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 2015.

The largest insured natural catastrophe event during 2016 was Hurricane Matthew. This was the first category five Atlantic hurricane since 2007 which principally impacted the Caribbean causing over 1,600 deaths. While Florida escaped relatively lightly, the hurricane could have been a real test for the market had its path moved directly over the high concentrations of risk in the Florida peninsular. The other natural catastrophe to impact the Lloyd's market was the Kaikoura earthquake in New Zealand.

The market's second largest loss was the wildfire which devastated Fort McMurray in Alberta, Canada which investigators believe was caused by human activity. Two other major events were the damage to the Kwame Nkrumah floating production storage and offloading facility operating in the Jubilee oil field of Ghana and the explosion of Space X's Falcon 9 Rocket that destroyed its payload Amos-6 Satellite.

Other losses impacting the year include: the spillage from a pipeline in Saskatchewan; a fire at a large clothes warehouse in New Jersey; cargo spoilage claims following the bankruptcy of a South Korean container transportation company; an explosion at a chemical plant in Mexico and the scrapping of an oil platform in the Norwegian North Sea following cracks emerging in the platform's legs.

Although natural catastrophes exerted a larger toll on insurers and reinsurers in 2016 than any year since 2011, the overall losses cannot be described as anything but average, when compared with the years 2005 (the year of Hurricanes Katrina, Rita and Wilma) and 2011 (a year of international losses including earthquakes in New Zealand and Japan and floods in Thailand).

7. Portfolio Planning

Syndicate Split 2017

With the market continuing to soften we were not expecting much growth for 2017. However the strength of the US$ necessitated various core syndicates to pre-empt their capacity, including Syndicates 33, 510 and 623, which were naturally accepted. All the pre-emptions and de-emptions are listed in Section II.

The need for auction activity was consequently reduced and the only purchase was a small amount on Syndicate 510, at a price that was attractive to increase the involvement to 20% of the overall portfolio.

Talisman had a minor involvement on Syndicate 2525 but, with little scope to purchase more at a sensible price, the directors decided to sell the capacity at a premium to its purchase price.

A new syndicate for 2017 is Blenheim 5886. The key underwriters and managers of this new syndicate are formerly of Cathedral Syndicate 2010 and, given our knowledge of those involved, we took an allocation of £195,000 which is 0.85% of the portfolio.

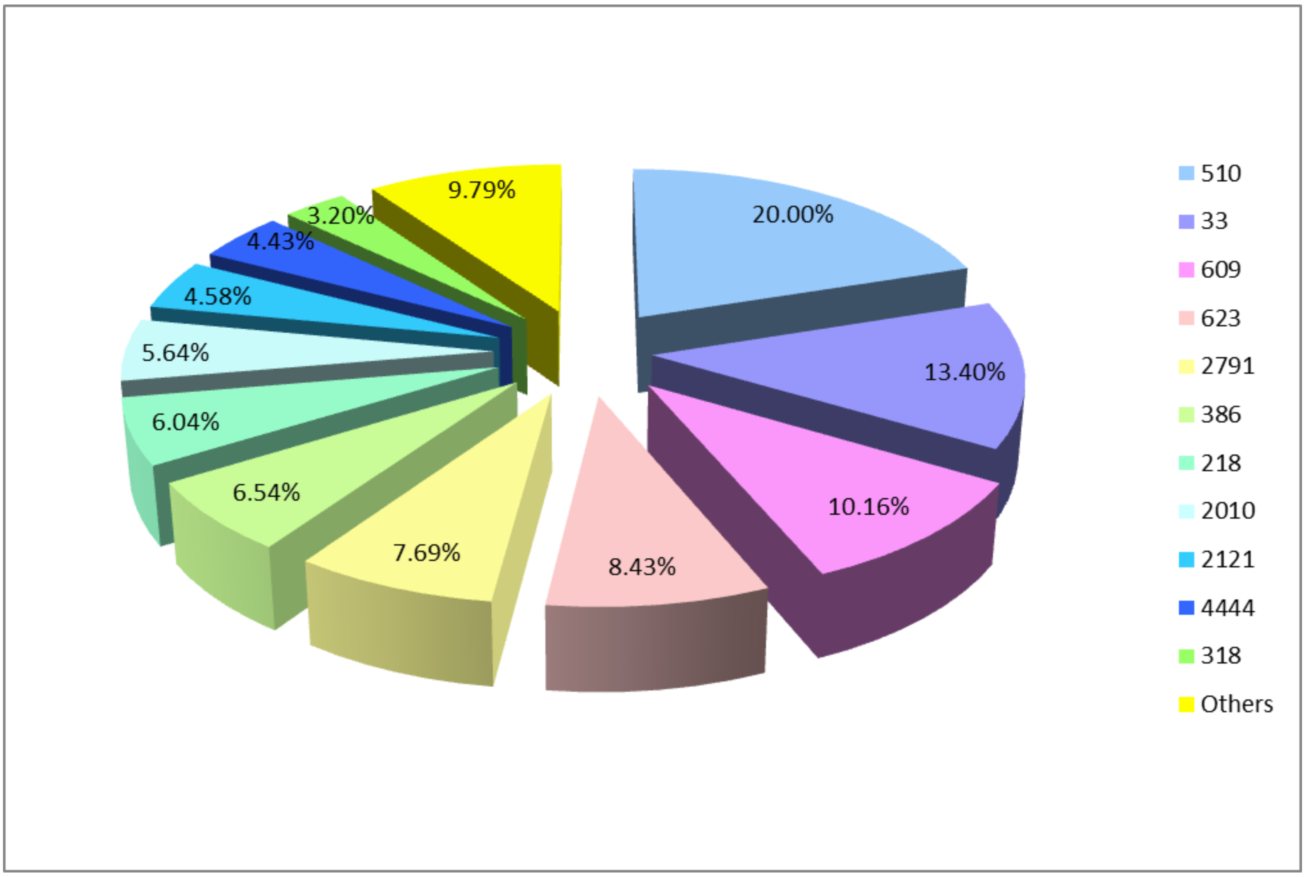
We continue to monitor very carefully the other two newer syndicates Talisman supports namely 1884 and 1991. In particular, with respect to the Standard Club 1884, despite there being a good business case for the syndicate, its performance to date has been disappointing and the directors will be examining their continuing level of support later in the year.

When reviewing the syndicate portfolio each year, the directors of Talisman have to consider how Talisman should utilise its capital to the best advantage of shareholders. Lloyd's operates a risk based capital model and Talisman's capital requirement (ECA) for 2017 is 50.3% of premium income limit. This is at the lower end of the scale, which is reflected in the realistic disaster scenarios, and is a further demonstration of the risk appetite of the business.

The directors continue to concentrate on the better quality rated syndicates with a medium risk rating, as now detailed in Section II. Almost 60% of the portfolio is on five syndicates which increases to almost 73% for the top seven. The focus is on those syndicates that the Directors believe are best positioned to have the necessary skills, resources and innovation to secure a satisfactory result for the Company.

The principal syndicates supported for the 2017 year of account are illustrated below in capacity order.

Full details are given in Section II.



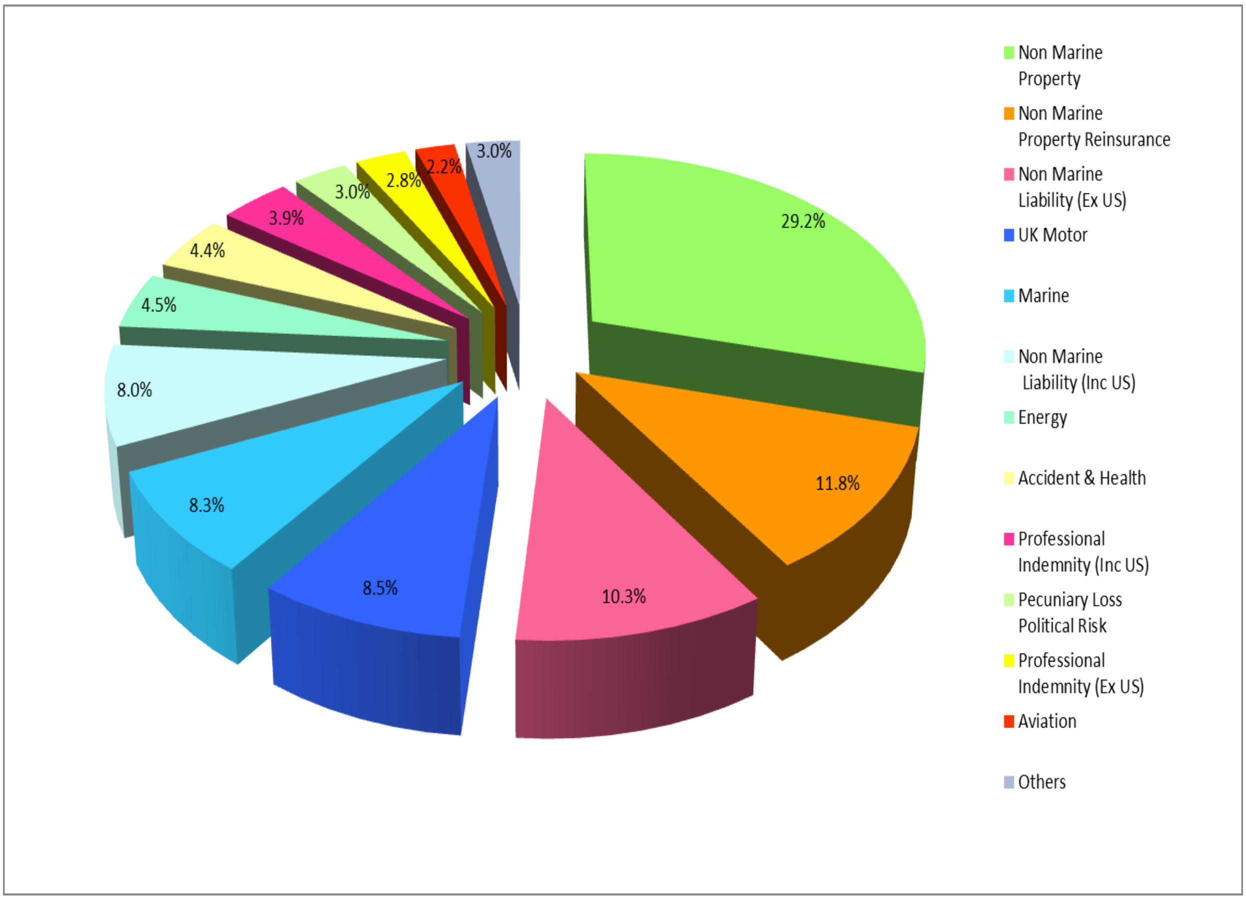
8. Market Trends and Renewals

Overview

Insurance and reinsurance markets continue to suffer from an oversupply of capital, a fall in pricing and a widening of terms and conditions. Although there are distinct signs of the market reaching a low point, even a single digit reduction of current pricing levels could take away an already thin margin. Currently reinsurers are still making profits, albeit due to lower than expected losses and higher than forecast releases. Until something happens that reduces the capital supporting the underwriting, the market will bump along the bottom or even decline further. At present it looks as if the timing of a return to positive rate movements will depend on loss activity, reserve inadequacies and an increase in interest rates.

At this point in the cycle many underwriters emphasise the importance of knowing your client and of client relationships, as a basis for profitable underwriting. This practice is becoming more widespread in the market where underwriters are focusing on their reliable core book of business, and is a reminder that we should sometimes be less concerned about the headline rates and the often gloomy observations that accompany them.

The chart below shows Talisman's spread of business across the major classes for the 2017 year of account, with further comments following.



Non-Marine Property

Property business is written worldwide with a significant proportion coming through cover holders and other delegated authority arrangements.

Excess capacity and increased competition, particularly from domestic markets, has continued to keep pricing under pressure during the year. Many syndicates are seeking to expand this account and growth is evident in both international open market business and US excess and surplus lines, along with US binding authority business. The impact of competition has mainly been confined to pricing with terms and conditions remaining largely unchanged.

However, results have come under pressure driven by rising attritional losses. Further the increase in catastrophes during 2016 including, Hurricane Matthew and Canadian wildfires, affected this account. Following a deterioration in performance it is hoped that there will be a slowing of rate reductions however, there will always be competition for those accounts that are perceived to have better margins as a result of good risk management practices.

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 experienced a number of natural catastrophe losses during 2016 although none of these caused exceptional levels of loss.

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, whilst the rating of international business continues to be of concern. Policy wordings are also important and there has been some widening of terms.

There are now a number of dynamics that are contributing to price stabilisation and these factors could begin to reverse the rating trend. For example, there is a marked slowdown in the rate of new third party capital entering the market. There is some growth in the demand for reinsurance as cedents recognise the current pricing levels offer opportunities to support growth, decrease costs of capital and increase franchise value.

During 2016 there was an increase in attritional claims experience and with a change in the macro economic environment, including rising expectations of inflation in the US, the UK, parts of Europe and some emerging economies, the risk of reserving shortfalls is compounded.

The value of long term relationships with clients within the reinsurance sector cannot be overstated and it is essential to select the right people with whom to do business. Losses will not be avoided, but reinsurers must select those better positioned to recover and those who outperform the catastrophe models. Knowledge of the client is essential as is an understanding of the limitations of catastrophe models. Underwriters must be able to think as well as to understand and operate the catastrophe models that are used.

Therefore the relationships need to be with those who make the decisions, which ideally include a CEO, and it is essential to understand companies' business culture. Predictably perhaps, the larger the company, the more difficult it is to form such relationships as the tendency is for larger entities to be run by committee whose composition changes and is more likely to focus almost exclusively on price.

Non-Marine Liability

Growth continues in the liability sector with some of that due to new and innovative products including cyber related risks. These products will continue to develop as customers become increasingly aware of the exposures they face and the protection that they need.

Ensuring reserves are adequate is paramount when writing liability risks and indeed releases from reserves were minimal in this class last year. Part of that was due to the Ogden discount rate referred to earlier in this report. Additionally inflation will put further pressure on this account due to its long tail nature. Whilst Lloyd's overall greatest exposure is in US business, Talisman seeks to maintain its above average exposure in the non-US sector.

Writing casualty business is often seen as adding diversification to an overall portfolio. Thus whilst there is appetite amongst insurers for this type of business, pricing can only be expected to weaken further.

Marine

Lloyd's has maintained its leading position in marine insurance business which includes hull, cargo, marine liability, fine art and specie, political risks and war. As in most classes there is an abundance of capacity, therefore rating continues to be under pressure particularly in the cargo and hull sectors.

Whilst the global economy is expected to grow there is currently little evidence of increased demand for shipping which will keep the pressure on rates.

Energy

Energy is one of the few classes of business where income was meaningfully down in 2016 compared to the previous year. The class continues to suffer as a result of the depressed oil price and resultant reduced activity in exploration and production.

Performance in the energy sector is highly correlated to the price of oil. In the absence of a sustained increase, the sector's outlook will not improve. Competition remains intense due in part to the lack of any major events in the Gulf of Mexico. Underwriters are critically assessing their involvement in this sector due to its inherent volatility and the need for correct pricing.

UK Motor

Talisman's main exposure to the motor market is through its participation on ERS Syndicate 218 which accounts for about 6% of the portfolio.

Underwriting conditions in the UK motor market remain challenging and the management of Syndicate 218 have taken considerable steps which they believed would improve their performance. Nonetheless personal injury claims continue to increase despite Ministry of Justice reforms coming into effect in 2016. In addition, repair bills continue to rise as vehicles become more sophisticated and consequently the cost of parts and labour increases. The weakening pound has further increased the cost of imported spare parts.

Whilst overall rates are increasing, that is not being reflected in the bottom line result.

Reserves had to be strengthened as a result of the change in the Ogden discount rate in February 2017 which moved from plus 2.5% to minus 0.75%. This has increased the expected value of claims on prior years and for future claims values. The consultation on legislation, which was postponed due to the general election, should now be resurrected but this unknown only adds to the uncertainties.

As a result of Ogden and claims inflation generally, rates must increase meaningfully during 2017. Further, underwriters will need to anticipate the increase in the cost of reinsurance that will come into effect at the next renewal consequent upon the changes to the Ogden discount rate.

The directors will be reviewing Talisman's involvement in the motor market for 2018 because with losses forecast for the 2015 and 2016 years of account of 6.5% and 5% respectively, future support has to be questioned.

Aviation

In comparison with recent years the 2016 accident year was relatively light in terms of major loss activity. Consequently pricing continues to decline although there are some signs that rates are stabilising.

Despite the good safety record, the overall market loss ratio remains disappointing which in turn is a reflection of the poor rating for major airlines. Aviation understandably remains a small part of Lloyd's and Talisman's business.

9. Conclusion

Looking back at 2016, it was an extraordinary year in social, political and economic terms, fundamentally altering many of the certainties that underlie the way we are governed and the way we trade. The unexpected result of the General Election only served to reinforce this comment.

However, for insurers the period of good fortune continued and actual experience proved better than the usual “historical frequency and severity of insured loss”. Nonetheless a number of devastating earthquakes and powerful storms made 2016 the costliest 12 months for natural catastrophes losses in the last four years. When the major losses of the year are analysed the opportunities that exist for insurers are highlighted. For example, the two earthquakes on the Southern Japanese island of Kyushu, close to the city of Kumano in April 2016 cost an estimated US$31billion of which just under 20% was insured. Floods in China in June and July caused losses of US$20billion of which only 2% are estimated to have been insured.

In North America the year’s most serious event was Hurricane Matthew. Its greatest impact was in the Caribbean island nation of Haiti and it also caused serious damage on the east coast of the US. Overall losses totalled US$10.2billion with only just over a third being insured. As Dominic Christian, the CEO of the broker Aon UK remarked, surplus capital is not the problem, rather it is the fact that there are too few products - “We do not sell enough insurance”.

Lloyd’s continues to grow in its developed markets as the economies expand particularly in the US. Many syndicates now operate on Lloyd’s platform in China and Lloyd’s is currently opening its first office in Mumbai. Lloyd’s as a specialist market must have a presence in the fast developing economies.

Lloyd’s and the insurance market is going through a difficult period, as detailed in the earlier sections of this report, although most of the comments are generalisations about the market as a whole rather than the syndicates Talisman chooses to support.

The quality managing agents will be ruthlessly analysing their business plans and ensuring that they are realistic and achievable. They will be getting closer to their customers, improving their competitiveness, seeking to increase profitability and investing in people to ensure that they are well placed to meet the challenges and opportunities that lay ahead.

In addition to the managing agents monitoring performance against those plans, Lloyd’s, through the performance managing directorate, will provide oversight and challenge throughout the planning process and thereafter. There is no doubt that the cost of doing business is too high and that managing agents need to examine their distribution channels with particularly regard to broker remuneration.

Talisman relies heavily on Argenta for syndicate research and recommendations. They are in continuous contact with the syndicates we support and monitor progress against business plans and their own expectations. Talisman remains highly focussed with over 70% of its underwriting on just 7 of the 96 syndicates trading at Lloyd’s. Unless there is a change in market conditions this spread of allocation will continue into 2018.

Lloyd’s is a brand with a history of continuous innovation to meet the needs and demands of business around the globe and is well placed to continue in that manner and to respond to the evolving environment.

SECTION II

10. Syndicate Participations

Detailed below are the syndicate participations for the 2014 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			
			2014 £	2015 £	2016 £	2017 £
33	P Lawrence	Hiscox	2,451,786	2,499,807	2,679,807	3,081,778
218	G Butterworth	ERS	1,173,406	962,725	1,041,759	1,388,630
318	D Eales	Beaufort	675,112	705,112	737,190	737,190
386	D Harries	QBE	1,710,327	1,503,464	1,673,010	1,504,399
510	P Culham	Tokio Marine Kiln	3,839,978	4,004,978	4,268,917	4,599,741
557	D Huckstepp	Tokio Marine Kiln	26,554	0	0	0
609	T Drysdale	Atrium	2,087,628	2,182,506	2,337,564	2,337,564
623	N Maidment	Beazley	1,366,911	1,344,134	1,640,447	1,939,007
727	M Meacock	Meacock	327,723	352,723	352,723	352,723
958#	M Duffy	Canopius	880,765	949,636	N/A	N/A
1884	R Dorey	Charles Taylor	N/A	200,000	330,000	330,000
1969	N Jones	Apollo	46,608	281,838	329,927	384,914
1991	D Wright	R&Q	29,246	109,623	97,463	97,463
2010	J Barnes	Cathedral	1,346,823	1,257,221	1,297,266	1,297,266
2121	I Maguire	Argenta	711,387	771,387	947,855	1,053,173
2525	D Dale	Asta	109,048	109,048	129,127	0
2791	R Trubshaw	MAP	1,827,707	1,676,582	1,769,482	1,769,482
4444	M Duffy	Canopius	N/A	N/A	1,041,425	1,041,425
5886	J Hamblin	Asta	N/A	N/A	N/A	195,000
6103*	R Trubshaw	MAP	23,273	27,126	31,416	39,557
6104**	M Krefta	Hiscox	190,000	250,000	218,560	224,970
6105***	N Bonnar	Ark	621,380	670,929	N/A	N/A
6111****	P Greensmith	Catlin	991,771	1,072,805	1,239,962	627,882
TOTAL			**20,437,433**	**20,931,644**	**22,163,900**	**23,002,164**
		No. of Syndicates	**20**	**20**	**19**	**19**

\# Syndicate 958 merged into Syndicate 4444 for the 2016 year of account. They were previously written in parallel.

* Syndicate 6103 provides a specific catastrophe account quota share reinsurance of MAP Syndicate 2791

** Syndicate 6104 provides a specific catastrophe account quota share reinsurance of Hiscox Syndicate 33

*** Syndicate 6105 provides a quota share reinsurance of specific accounts of ARK Syndicate 4020

**** Syndicate 6111 provides a whole account quota share reinsurance of Catlin Syndicate 2003.

Participation on the 6000 series of syndicates is on a limited tenancy basis and they are not traded through the auction process.

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

11. Syndicate Pre-emptions and De-emptions

The syndicates pre-empting or de-empting that affect Talisman for 2017 are detailed below.

Syndicate	Underwriter	Managing Agent	Pre-Emption %	De-Emption %
33	P Lawrence	Hiscox	15.0	
218	G Butterworth	ERS	33.3	
386	D Harries	QBE		10.1
510	P Culham	Tokio Marine Kiln	7.0	
623	N Maidment	Beazley	18.2	
1969	N Jones	Apollo	16.7	
2121	I Maguire	Argenta	11.1	

All the pre-emptions listed above were taken up in full.

The pre-emption available on Standard Club Syndicate 1884 of 16.7% was not taken up.

The amount of capacity made available by Catlin Underwriting Agencies Limited on Syndicate 6111, which is a special purpose arrangement (SPA), was reduced by approximately 50% for the 2017 year of account.

12. Syndicate Capacity Purchased and Sold

Syndicate	Managing Agent	Capacity	Cost	Proceeds
510	Tokio Marine Kiln	£32000	£5891	
2525	Asta	£129126		£79642

13. Syndicate Ratings

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

Rating	Talisman %		Market %	
	2017	2016	2017	2016
A	45.3	43.9	44.0	44.1
B+	30.4	33.5	23.9	26.6
B	13.8	14.5	12.3	12.7
C+	1.7	1.5	3.3	3.2
C	8.7	6.0	15.3	12.2
D	0	0	1.2	1.2

14. Risk Ratings

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

- The Economic Capital Assessment (ECA) percentages produced by Lloyd's;
- 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 %	
	2017	2016	2017	2016
Very High	1.1	1.1	4.7	4.7
Higher	2.7	0.4	10.9	4.1
Medium to Higher	39.3	41.5	36.4	41.6
Medium	56.9	56.9	47.4	48.9
Lower to Medium	0	0	0.6	0.6

15. Business Split Analysis

The table below shows the estimated business split of Talisman for the 2017 Year of Account. As a comparison, we show the market average for all capacity available to third party capital providers and the figures for 2015 and 2016. The categories used are based on the estimated split of account supplied by syndicates in their 2017 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 %		
	2017	2016	2015	2017	2016	2015
Non Marine Property	29.2	30.3	30.6	27.9	29.0	29.3
Non Marine Property Reinsurance	11.8	11.0	11.2	14.8	12.9	13.0
Non Marine Liability (Ex US)	10.3	11.1	11.5	9.0	9.4	9.6
UK Motor	8.5	7.2	6.4	7.3	6.3	6.7
Marine	8.3	9.0	8.9	8.0	8.6	8.2
Non Marine Liability (Inc US)	8.0	6.2	5.3	9.1	7.5	6.3
Energy	4.5	5.9	7.4	4.1	5.3	6.3
Accident & Health	4.4	4.5	4.5	4.1	4.2	4.2
Professional Indemnity (Inc US)	3.9	3.6	3.0	4.2	3.9	3.4
Pecuniary Loss/ Political Risk	3.0	2.4	2.4	3.0	2.5	2.7
Professional Indemnity (Ex US)	2.8	2.9	2.4	2.6	3.0	2.7
Aviation	2.2	2.7	2.8	1.8	2.3	2.4
Marine Reinsurance	0.9	1.0	1.2	0.8	0.9	1.0
Non Marine Liability Reinsurance	0.9	1.0	1.1	1.5	1.8	1.5
Space & Satellite	0.6	0.7	0.8	0.5	0.7	0.8
Aviation Reinsurance	0.6	0.6	0.8	0.5	0.6	0.7

16. Realistic Disaster Scenarios (RDS)

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

As RDS are estimates, they are based on assumptions by the managing agency on their likely levels of income, business written and reinsurance purchased for the year. Therefore they are very much subject to change. In all cases Argenta has taken Managing Agents’ projected exposure contained in their 2017 Business Forecasts. For a number of syndicates the RDS figures will represent a maximum appetite for exposure rather than actual exposure. For this reason, the RDS exposures may be over-stated.

Changes to the underwriting policy, reinsurance programme and rating levels will all change the actual exposure. It is also important to note that a single loss can impact a number of different underwriting years, depending upon the inception date of the affected policies. Managing Agents are expected to report on the aggregate exposure to all underwriting years i.e. if they report an exposure of 10%, this might be made up of 7% to the 2017 year of account, 2% to the 2016 account and 1% to 2015 and not as 10% to 2017. 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 in a short period.

Catastrophe Scenario	Talisman %			Market Average %		
	2017	2016	2015	2017	2016	2015
Whole World Natural Catastrophe AEP 1 in 30	20.1	N/A	N/A	22.6	N/A	N/A
US Windstorm AEP 30 Year Return Period	14.3	11.1	10.5	16.1	13.8	12.8
Terrorism – Rockefeller Centre	9.6	9.0	7.4	10.8	10.5	8.0
Cyber – Major Data Security Breach	9.2	N/A	N/A	7.9	N/A	N/A
US Earthquake AEP 30 Year Period	7.2	12.3	11.6	8.2	14.4	13.6
Loss of Major Complex	6.3	5.9	5.0	8.9	9.4	7.3
Aviation Collision	6.0	6.0	4.7	5.4	5.4	4.3
Marine Event	4.8	4.3	3.3	4.3	4.1	3.2

RDS Descriptions

US Earthquake AEP 30 Year Return Period

US Windstorm AEP 30 Year Return Period

Whole World Natural Catastrophe AEP 1 in 30

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

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

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

In syndicates' 2017 business plans, exposures are based on the modelling output typically used for reinsurance purchase which better explains how frequent a given loss can be expected to be over a prolonged (many hundreds of years) period. These models are also extensively used in determining what the adequate level of capital is for a syndicate to be resilient to the size of loss that can be expected to recur once every 200 years. The parameter that Lloyd's use is called the Aggregate Exceedance Probability (or AEP) and it calculates the total loss that the syndicate would expect to experience once every thirty years arising out of the particular peril.

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

Our 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 last year's report. 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.

Assumes that all client data at these organisations is lost, that class actions are pursued and that the organisations will 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 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.

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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