

TALISMAN

Underwriting Plc

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Report – January 2015

The Directors are pleased to report that, since the last publication in July, the forecast for the 2012 underwriting year of account, as at 30 September 2014, has increased from a mid point profit of 7.0% of premium income to 9.1%. The final result will depend upon the dollar to sterling conversion rate and to the extent there are further releases from reserves. A final profit in excess of 10% would be very welcome.

The forecast for the 2013 underwriting year of account remains “pure” as there will be no adjustment for any release from reserves until later this year. It is therefore encouraging that the mid point profit estimate has increased from 6.05% to 6.8% of premium income. Historical data would suggest that figure will improve further before the account closes at 31 December 2015.

With reinsurance rates being under pressure it is fortunate there were no major hurricanes making landfall during 2014 causing significant damage, nor were there any major earthquakes. There were however many meaningful losses during the year including weather related claims in the US, Europe and Australia. It was a costly year for aviation with the tragic loss of Malaysian Airlines flights MH370 and MH17, together with the recent AirAsia loss. Furthermore, the cost to underwriters for damage to planes at Libya’s Tripoli airport could be as much as \$750million. These events together with satellite losses, fires at energy and chemical plants and other claims are the reason our business exists and overall, with the exception of aviation, are within budget. Much remains on risk but the incurred loss ratio at the end of September was similar to the previous two years. We do not receive the first official forecast for 2014 until the end of May 2015, but currently a profit has to be anticipated.

For 2015 we can report that Talisman’s overall premium limit has increased from £20.44million to £20.73million. This growth is due to the purchase of two LLPs, one having a premium limit of £429,000 and the other £401,000. These two purchases also compensated for the reduction in capacity on some syndicates supported due to the managing agents de-empting capacity to match market conditions. We are delighted to report that both vendors accepted shares as a major part of the consideration and we welcome both as shareholders in the company.

The spread of syndicates that Talisman supports for 2015 is broadly similar to 2014 but the company will be writing more direct property business and less reinsurance which again reflects trading conditions in the competitive reinsurance market that is suffering from an oversupply of capital.

This is further demonstrated when considering the Realistic Disaster Scenarios as there is a small reduction in the cost to Talisman of the windstorm and earthquake modelled exposures.

As we move through this part of the cycle, the quality of Talisman's underwriting portfolio is critical to the success of the company and for 2015 almost 70% of the portfolio is placed on seven syndicates which we consider amongst the best at Lloyd's. We have confidence in all the syndicates which we support and expect them to maintain a strong underwriting discipline and to charge an adequate premium per unit of exposure. Declining to write business, that is not priced correctly, is an essential practice and we will not complain if syndicates do not reach their budgeted income levels. What is of importance to us is maintaining profitability and above all, not making a loss.

Underwriters will be working very hard this year fostering the relationships that will help them maintain the good renewal business they do not wish to lose. Conversely new business, which is so often someone else's old business, needs to be scrutinised very carefully before acceptance.

Whilst the good news is that we have not experienced any very costly catastrophes for some years, the consequence is that the market has been very profitable relative to many other asset classes which in turn has led to more competition as evidenced by the January renewals in the reinsurance sector.

The underwriters we support have been in this position before and are capable of managing their businesses through the cycle. Only time will tell what 2015 has in store but we have planned for the year as best we can and remain grateful for the additional supervision provided by the Performance Management Department at Lloyd's.

More detailed information will be provided in our mid-year report.

David Monksfield