

TALISMAN

Underwriting Plc

Report – July 2013

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Talisman Underwriting Plc

Report – July 2013

1. Introduction

The Directors are pleased to report that the 2010 underwriting year of account has closed with a profit of 3.1% of capacity, which is at the top of the range for results projected last year.

The most recent forecast for the 2011 underwriting year of account is a profit in the range of 1.85% to 8.09% with a midpoint of 4.97% of capacity. We would again expect the final result to be towards the upper end of this range.

The initial forecast for the 2012 year of account is a profit in the range of 0.47% to 7.72% with a mid-point of 4.10% of capacity. The major event affecting the year was Superstorm Sandy which hit the East Coast of the United States in October 2012. Unless there is a significant event before the end of this calendar year, the final result should also be towards the top end of the range.

The Lloyd's market reports its global accounts on a calendar year basis and has reported a profit for the year ended 31 December 2012 of £2.77billion. This represents a return on capital of 14.8% for the year and is one of the market's best results despite October's Superstorm Sandy mentioned above. In Lloyd's annual report the Chairman John Nelson stated "we must recognise the continuing importance of the market's disciplined underwriting if we are to sustain such returns against a backdrop of both increasingly frequent and severe catastrophes and continuing challenging economic conditions". The gross written premium for the Lloyd's market in 2012 was £25.5billion which represented a 9% increase year on year including an increase of 3% on premium rates overall.

Although Superstorm Sandy did not produce the hoped for bounce in rating levels, property reinsurance rates remained relatively strong, compared to long term averages and to other classes of business, until the June renewals in Florida. Meanwhile, US commercial insurance rates continue their steady, if slow, upward progress, but other classes remain subject to competitive pressures.

Whilst interest rates remain low, the ability of the capital markets to satisfy a demand for Insurance Linked Securities has increased. This has put pressure on the reinsurance market with which it competes. It is assumed that the rate reductions seen in June will flow into the major renewal season at 1 January. However it must not be forgotten that syndicates buy their own reinsurance protections and thus the net effect will be mitigated in part.

The table below (of rating indices for renewals, compiled by the Beazley agency which manages Syndicate 623) confirms the improvement in reinsurance rates in 2012 to a peak level. Competition for this class of risk is hardly surprising considering the potential for profit. Similarly there is evidence of improvement in the direct property and specialist lines.

Business Class	2001	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Property	100	133	126	124	140	137	128	135	130	134	141
Reinsurance	100	150	149	150	190	198	186	202	196	202	215
Marine	100	128	127	130	140	131	123	131	127	127	127
Speciality Lines	100	166	174	176	177	168	158	157	155	153	158
Total	100	145	146	147	155	149	140	144	141	142	145

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

The success of Talisman is dependent upon its choice of syndicates and the capacity it has on each of them. The amount of capacity traded at auction has decreased in recent years to just over £100m in 2012 and, as expected, prices have increased. The directors now intend to follow a strategy of purchasing companies or LLPs that become available for sale, as a source of acquiring capacity in addition to using the auctions. By purchasing other corporate members, Talisman can acquire a portfolio of participations that is known to fit the current portfolio of Talisman in one transaction. The price paid for capacity through this process is also more likely to reflect the average price achieved across the previous auctions rather than paying a significant premium to achieve success. Furthermore, any such transaction will also include the purchase of the pipeline profits or losses, which should be priced at a discount, making the overall transaction more attractive.

The directors are pleased to advise that on the 24 May 2013 the first such transaction was completed by the purchase of Seven Underwriting LLP, which has a capacity of £567,481, at a cost of £218,000. Further details are given in Section II.

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 a return on capacity; the return on capital employed would be significantly higher.

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
Estimated	2011	4.97	0.96
Estimated	2012	4.10	4.21

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

It is intended that the dividend on the 2010 year of account will be paid towards the end of 2013, after the hurricane season.

4. Result for the 2010 Year of Account

The 2010 calendar year saw claims from earthquakes in Chile and New Zealand, storm damage in Europe and the US and floods in Australia. Additionally, due to inception date accounting, the 2010 year of account was impacted by some of the catastrophic events at the beginning of calendar year 2011, including the earthquake and tsunami which hit Japan. On a pure basis the year of account made a loss but due to releases from prior years, the year has closed with an overall profit.

The managing agents have a good record of robust reserving and the release from prior years was equivalent to about 5% of capacity. There is evidence to suggest that this trend of releases will continue albeit at lower levels. Investment income during 2012, which is material to the year closing, at 2.8% of capacity across the market was perhaps higher than anticipated given the prevailing investment climate and Lloyd’s syndicates’ conservative investment mandates. With the continued flight to quality in bond markets, prices were pushed higher giving syndicates unrealised investment gains. This is a one off effect which is unlikely to be repeated this year. The risk is that when interest rates start to edge up, bond prices will fall and syndicates could make investment losses which would affect the naturally open years.

5. Forecast for the 2011 Year of Account

During 2011 we saw rate increases as a consequence of changes to one of the most widely used catastrophe models. These changes, with a base case of more frequent and more severe storms, led to a tightening of catastrophe capacity.

The year of account includes much of the cost of the earthquake in Japan and in particular the cost of the floods in Thailand. Further earthquakes in New Zealand and floods in Australia compounded matters to make the calendar year 2011 the costliest on record. As explained above, the 2010 account shares some of the cost, due to accounting principles. What is notable is that the major catastrophes were International rather than in the US. Those syndicates with a strong US bias will outperform the year. History suggests that over the cycle that will not normally be the case.

The risk profile of Talisman's portfolio should again ensure it outperforms the market.

The final result is expected to be in excess of a 5% return on premium limit with the final number depending on the releases from the reserves for earlier years. Bearing in mind the losses during 2011 this will be a remarkably good result.

6. Forecast for the 2012 Year of Account

As at the end of May we received the first estimates from managing agents for the 2012 account. A mid-point profit of 4.1% should prove conservative with the final result being greater than for 2011.

However, the 2012 year of account is still on risk and will be so for most of the year although the exposure decreased significantly following the June/July renewals of the main US catastrophe reinsurance programmes.

Superstorm Sandy was the most costly event of 2012 for the Lloyd's market. The storm developed from a tropical wave in the Western Caribbean Sea on 22 October and then strengthened and moved through the Caribbean before making landfall along the US Eastern sea board and Eastern Canada. This was a huge storm with a diameter estimated to span 1100 miles. The economic damage caused is estimated to be US\$65billion which makes it the second most costly windstorm behind Hurricane Katrina that hit New Orleans in 2005. The insured loss is estimated to be in the region of US\$25billion. Whilst the most affected class is property, there are sizeable losses in the marine market including cargo and fine art. Although Superstorm Sandy represents a significant cost to the Lloyd's market it falls within the allowance for catastrophe experience of the syndicate business plans, which is demonstrated by the satisfactory forecast for the year detailed above.

The other most notable major claim in 2012 was the loss of the cruise ship Costa Concordia which partially sank on 13 January 2012. The cost to insurers has increased due to the requirement to move the ship in one piece before it can be scrapped.

On current experience those syndicates writing catastrophe risks should outperform the market. Consequent to Talisman's risk profile a result more in line with the market average should be expected.

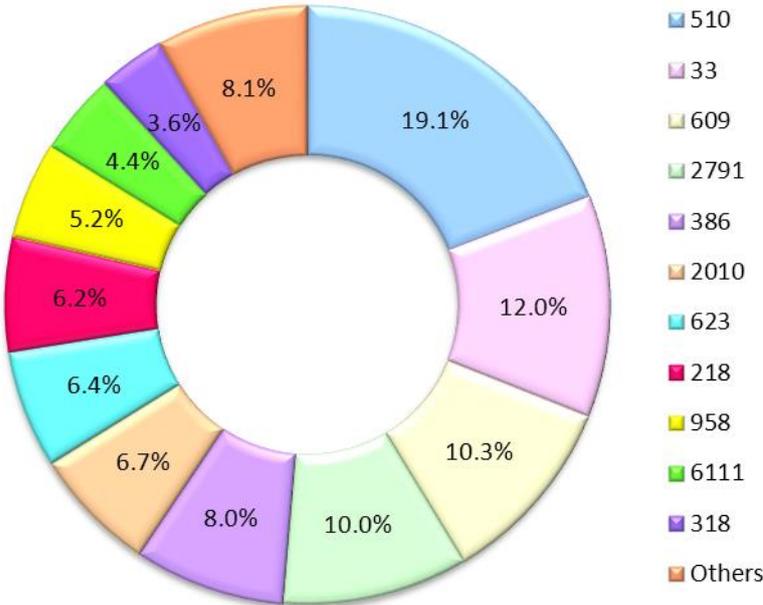
It should also be noted that the 2012 year of account will receive the bulk of its investment income during the calendar year 2014 and we would not wish to predict what that might be.

7. Portfolio Planning

Talisman – Syndicate Split 2013

The principal syndicates supported in 2013 are illustrated below in capacity order.

Full details are given in Section II.



For 2013 a very small line has been introduced of £100,000 on the Hiscox catastrophe syndicate 6104 which writes a quota share of that account of Syndicate 33. The line of £10,000 on MAP 6103 is a consequence of acquiring Seven Underwriting LLP.

To help diversify the account we bid at auction for non US liability syndicate 2525 but only succeeded in purchasing £59,048 of capacity. We will seek to add more this year if it is available at a reasonable price.

We were pleased to add to our involvement on Catlin 6111 but it must be noted that the capacity on this special purpose syndicate is only guaranteed for 2013 and 2014 and may not be available thereafter. Whilst we hope it will be, market conditions will dictate Catlin's requirements.

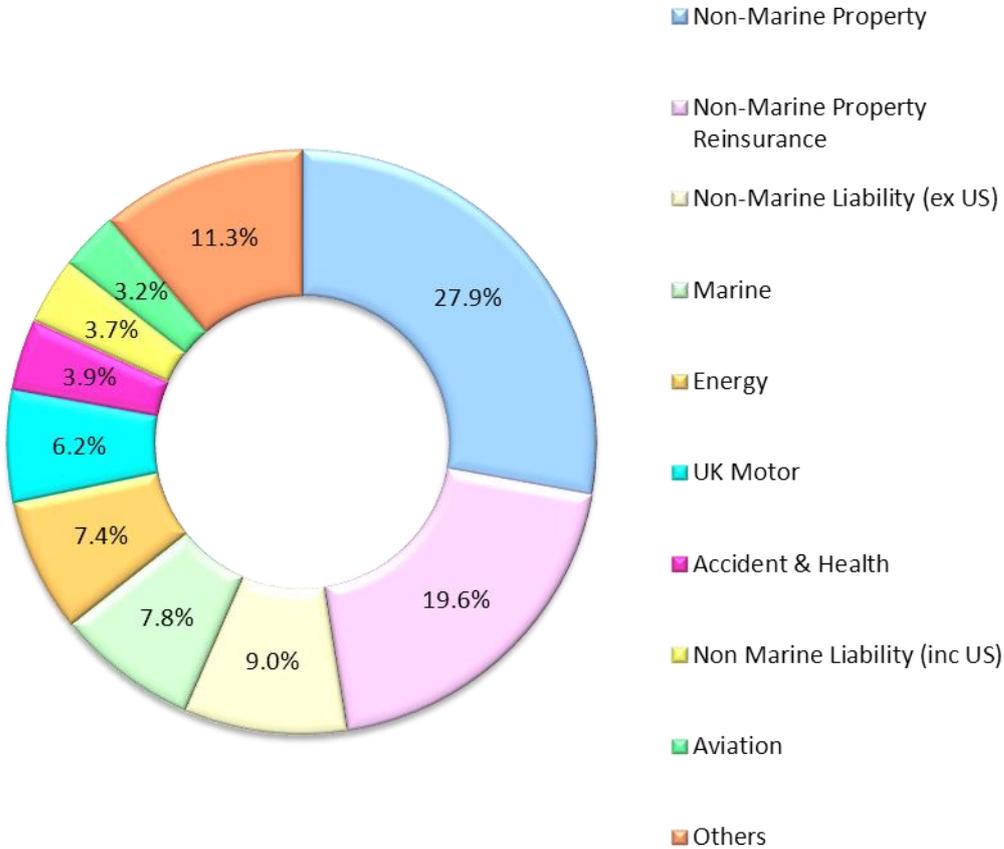
8. Market Trends and Renewals

Overview

Until recently the property catastrophe market has been very strong and capable of making good profits. Investors are seeking non-correlated assets and this is leading to an increase in competition from the securities markets and their products. Underwriters will need to be disciplined when they come to the all-important 1 January renewals. Whilst the profit potential will be reduced so will the potential downside as underwriters use the softer market to protect their own positions. Underwriters of other classes may benefit in a similar manner.

The chart below shows Talisman’s spread of business across the major classes.

Talisman – Class of Business Split 2013



Direct Property

There is steady upward progress in the US property account, with Texas based insurance information exchange, Marketscout, reporting year on year increases for the US commercial business of 5%. The continuing rate increases are indicative of a slowly turning US market with volumes of business available to Lloyd’s likely to increase as US domestic insurers retrench.

Premiums for catastrophe exposed business have tended to increase and there is evidence of gentle movement across the US. Markets for direct property across the globe are competitive and therefore any rate improvements are likely to be modest with small reductions inevitable in some markets.

Property Re-insurance

It is calculated that reinsurance capital has reached a record level of US\$500billion but that the demand for reinsurance has fallen. With these record levels of capacity and an uncertain economic environment rating is likely to stay challenging for some time. Underwriting discipline remains paramount.

During 2012 rates in the US tended to move upwards from an already satisfactory level. Outside of the US improvements tended to be in risk affected areas such as Japan, Australia and New Zealand. As we move through 2013 the market is weakening due to the surplus of capital whilst rates are reducing most rating remains at a very satisfactory level. The level of hurricane activity later in the year may affect the January 2014 renewals.

Non-Marine Liability

The liability or casualty market, as it is often referred to, covers a multitude of different types of risk across the globe. Talisman has a preference for non US business with Syndicate 386 being the principal carrier for this exposure which has proved a major source of profit to Talisman and a provider of diversification.

An upturn in rates is anticipated to the extent that there is the suggestion that some insurers are already increasing their involvement in the market ahead of that expected recovery. However this in turn is delaying the increases that are required. The continuing low investment returns also affect the casualty market which is "longer tail" and historically more dependent on investment earnings. Furthermore a benign claims environment means that many insurers are able to flatter results with releases from reserves. As the scope for these reduce, underwriters will have to raise original rates.

The full impact of the financial crisis that started in 2007 remains unknown and potential claims from financial institutions continue to be reported. There is a correlation between economic conditions and claims frequency and managing agents will need to be cautious with their reserving for some years to come due to the long tail nature of claims in this class and the time it will take to determine the actual costs.

Marine

The renewal of the international group of protection and indemnity insurers, the largest contract of the year for many marine syndicates, was completed at rate increases of up to 30% and with larger retentions. Although superficially good news, underwriters expressed some disappointment at the absence of a proper payback. There have been a number of losses to the contract in recent years including the Costa Concordia cruise liner and a number of contract years are in overall loss.

Superstorm Sandy had a material effect on the marine market with claims from the yacht and cargo books. There were also significant claims from the specie book which is the insurance of valuable property such as precious metals, art or jewellery.

The loss of the Costa Concordia resulted in a large claim to the marine liability markets and the eventual total cost continues to escalate due to the expenses for the removal of the wreck in one piece. It is anticipated that, due to these increasing costs, there will be further rate increases in the liability market next year.

Despite a slow emergence from the global economic recession rates are slowly improving in the marine sector, much due to the pressure of increased reinsurance costs.

Energy

The energy market is in better health having benefitted from rate increases coupled with lower claims experience. Lloyd's continues to grow its share of this market. Energy is a higher risk sector and underwriters monitor their exposures very carefully particularly in the liability sector. Whilst there were fewer losses offshore and no major losses in the Gulf of Mexico the offshore market has performed well in contrast to the onshore market that has suffered various losses including the effect of Superstorm Sandy on some power stations. These factors have led to a more competitive environment for recent renewals.

Motor

Talisman's main involvement in the motor sector is through Equity Motor Syndicate 218. The loss reported by the syndicate for 2010 was 20.8% and 2011 is forecast to be a loss of around 7%. It is expected that 2012 will be marginally profitable and that the results should improve thereafter. The Equity account focuses on customers and segments that have sufficient scale coupled with attractive underwriting margin and less competition than the mass market. In particular it does not source private drivers through the internet where rating remains exceedingly competitive, nor from brokers that acquire business in this manner.

A raft of legislation is now being introduced, designed to cut claims costs. These measures include removing premium recoveries, success fees and banning the payment of referral fees in personal injury claims in England and Wales. Further claims of up to £25,000 should become subject to a more rapid settlement process and legal fees should fall which will reduce insurers' costs. The motor sector provides diversification to the portfolio and providing we believe Syndicate 218 can produce profits we will maintain our support. The recent change in ownership of the managing agent should prove beneficial to the business.

Accident and Health

The accident and health market remains disappointing for whilst it is evident that rates should be improving competition continues and rating is flat. With insurers looking for diversification, which reduces their capital requirements and benefits their return on capital, there have been new entrants and various team moves within this sector which are holding it back.

Aviation

With no major insured airline loss since Air France in 2009 it is not surprising there were significant rate reductions at the end of 2012 when most of the world's major airlines renew. The reduction in rates is being compensated by an increase in premium due to growing fleets and passenger numbers.

Rates have been falling in all areas for a number of years and consequently aviation represents just 3.2% of Talisman's portfolio.

9. Conclusion

Earlier this year Lloyd's delivered its three year plan for 2013 to 2015. This plan marks the start of the market's delivery of Vision 2025, which we referred to last year, and focuses on six main areas.

- **Market Oversight**
This key priority is built around a robust performance management, capital oversight and risk management.
- **International Growth and Diversification**
Lloyd's needs to target profitable growth both from existing developed markets and from developing economies.
- **Streamlining and Enhancing Distribution**
Strong relationships with both large brokers and smaller specialist brokers remain key to Lloyd's success while cover holders and service companies provide efficient access to local markets.
- **Efficient Central Processes and Infrastructure**
It is important that Lloyd's processes and infrastructure are refreshed to ensure they are as efficient and cost effective as possible.
- **Attracting and Promoting Talent**
Broadening the diversity of people in the market is an important part of attracting the best talent and supporting Lloyd's international growth aspirations.
- **More Efficient Delivery of Private Names Capital**
The diversity of capital able to support underwriting is one of the strengths of the Lloyd's market.

The focus on private capital supporting underwriting at Lloyd's is very welcome. Historically private capital has supported Lloyd's on an individual basis either as unlimited names or by trading through a company or limited partnership. For 2013 there are 2023 private members writing a premium income of almost £2.7bn. We believe that Talisman is an efficient way of providing capital to the Lloyd's insurance market and that others will start to copy its method. The ability to deliver a significant participation on a syndicate by one member is efficient and is welcomed by Managing agents. For example Talisman now supports almost £3.5 million of capacity on the Kiln Syndicate 510 which is a material level of participation.

There are currently 89 syndicates trading at Lloyd's of which just 34 are open to support by private capital including Talisman. We are keen to increase the number of syndicates it supports and be involved with some of those currently not available that have a good performance record. If we can supply capacity in sufficient quantity then it will be easier to negotiate transactions with other managing agents by other routes and without the need to purchase capacity at auction. Talisman's involvement of approximately £800,000 on the Catlin Special Purpose Syndicate 6111, where there is a two year rolling contract and no cost of entry, is a good example of how we would like to see the future develop.

The Lloyd's market contains many of the finest underwriters in the world. It has net resources of over £20 billion of which Talisman is just a very small part. Given the expertise offered by the Lloyd's specialist subscription market it is well placed to provide the expert underwriting which growing economies need both now and in the future. Lloyd's aim is to continue to build on these foundations with the desire of growing the business profitably, sustainably and efficiently.

We welcome and support the initiatives of John Nelson, the Chairman of Lloyd's, and his executives and in particular their desire to see the growth of private capital at Lloyd's and their understanding of how it benefits the market.

The success of Talisman has been its choice of syndicates and the priority of quality over growth. We will maintain that policy but will examine potential opportunities as they appear and will welcome an increased involvement from current investors and new investors to the company when appropriate.

Trading conditions for 2014 may not be as good as in recent years due to the competitive initiatives by the capital markets. Nonetheless, the prospect of a satisfactory profit remains, providing the choice of syndicates is correct.

The directors continue to monitor the market and trading conditions very carefully and will use the capacity auctions in September and October to adjust the portfolio as considered appropriate. As always, even in these uncharted times, we look forward to the year ahead and in doing our best for you in the knowledge that the combined skills of those in the Lloyd's market have the ability to navigate the best route forwards.

SECTION II

10. Syndicate Participations

Detailed below are the Company's syndicate participations for the 2010 account onwards.

Syndicate	Underwriter	Managing Agent	Allocated Premium Limit			
			2010 £	2011 £	2012 £	2013 £
33	P Lawrence	Hiscox	1,800,174	1,962,158	2,071,165	2,166,166
218	M Bacon	Equity	1,174,116	1,250,000	1,125,000	1,125,000
318	D Eales	Beaufort	557,499	657,499	657,499	657,499
386	A Bathia	QBE	1,052,391	1,200,000	1,357,809	1,457,809
510	Various	Kiln	3,004,240	3,004,240	3,288,577	3,469,966
557	D Huckstepp	Kiln	300,000	150,539	0	0
570	R Harries	Atrium	319,829	450,000	0	0
609	R Harries	Atrium	1,001,231	1,150,000	1,700,000	1,860,000
623	N Maidment	Beazley	1,011,445	1,100,000	1,100,000	1,152,788
727	M Meacock	Meacock	327,723	327,723	327,723	327,723
958	S Gargrave	Canopus	1,122,549	1,200,000	1,200,000	942,866
2010	J Hamblin	Cathedral	694,040	1,000,000	1,000,000	1,212,400
2121	I Maguire	Argenta	450,063	514,358	514,358	550,000
2525	D Dale	Asta				59,048
2791	R Trubshaw	MAP	1,651,242	1,750,000	1,750,000	1,810,000
4020	N Bonnar	Ark		588,477	588,477	
6103*	R Trubshaw	MAP				10,000
6104**	P Lawrence	Hiscox				110,000
6105***	N Bonnar	Ark	588,477			327,236
6106****	S Beale	Amlin	100,000	100,000	100,000	100,000
6111*****	N Burkinshaw	Catlin			500,324	795,000
TOTAL			15,155,019	16,404,994	17,280,932	18,133,501
		No. of Syndicates	16	16	15	18

* 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.

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

11. Syndicate Pre-emptions and De-emptions

The pre-emption and de-emption affecting Talisman for 2013 are detailed below.

Syndicate	Underwriter	Managing Agent	Pre-Emption %	De-Emption %
623	N Maidment	Beazley	4.80	
958	S Gargrave	Canopus		21.43

The de-emption for Syndicate 958 was a result of the review of its business, consequent to its acquisition by Canopus.

12. Syndicate Purchases

The following capacity was purchased during the 2012 auctions.

Syndicate	Managing Agent	Capacity £	Cost £
386	QBE	100,000	86,675
510	Kiln	81,389	12,801
2010	Cathedral	125,000	45,090
2121	Argenta	35,642	616
2525	Asta	59,048	8,376
	Total		153,558

13. Capacity acquired by the purchase of Seven Underwriting LLP

Syndicate	Managing Agent	Underwriter	Capacity £
33	Hiscox	P Lawrence	95,001
510	Kiln	Various	100,000
609	Atrium	R Harries	160,000
2010	Cathedral	J Hamblin	87,480
2791	MAP	R Trubshaw	60,000
6103	MAP	R Trubshaw	10,000
6104	Hiscox	P Lawrence	10,000
6111	Catlin	N Burkinshaw	45,000
	Total		567,481

14. Business Split Analysis

The table below shows the estimated business split of Talisman for the 2013 Year of Account. As a comparison, we show the market average for all capacity available to third party capital providers and the figures for 2011 and 2012. The company continues its bias towards Non Marine Property and Non Marine Property Reinsurance.

Risk Category	Talisman %			Market Average %		
	2013	2012	2011	2013	2012	2011
Non Marine Property	27.9	26.0	25.9	26.3	25.1	27.6
Non Marine Property Reinsurance	19.6	19.4	18.3	22.7	23.1	20.4
Non Marine Liability (Ex US)	9.0	8.6	7.3	7.4	6.2	5.3
Marine	7.8	7.5	8.0	6.9	7.2	7.6
Energy	7.4	7.1	8.2	6.5	6.8	7.7
UK Motor	6.2	8.4	8.6	5.6	7.5	7.5
Accident & Health	3.9	3.7	3.6	4.2	3.6	4.2
Non Marine Liability (Inc US)	3.7	3.1	3.0	4.5	3.3	3.0
Aviation	3.2	3.5	3.7	2.6	3.1	3.1
Professional Indemnity (Inc US)	2.9	3.2	4.0	2.9	3.2	3.8
Professional Indemnity (Ex US)	2.4	3.0	2.6	2.6	3.1	2.6
Pecuniary Loss/ Political Risk	2.3	2.5	2.4	2.4	2.4	2.1
Non Marine Liability Reinsurance	1.1	1.4	1.5	1.0	1.3	1.2
Space & Satellite	1.1	1.1	1.2	1.0	1.0	1.0
Aviation Reinsurance	1.0	0.9	1.2	0.8	0.9	1.0
Marine Reinsurance	0.8	0.7	0.6	0.7	0.6	0.5

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 %		
	2013	2012	2011	2013	2012	2011
Two Events	21.3	21.8	24.8	30.1	31.0	32.2
North East Windstorm	13.4	11.8	13.4	18.7	16.9	17.5
Gulf of Mexico Windstorm	13.1	12.9	14.0	17.7	17.1	17.5
Florida Windstorm	11.9	12.6	13.7	16.4	16.9	17.6
Californian Earthquake	11.5	11.3	12.8	15.0	14.9	16.3
European Windstorm	9.6	7.8	9.9	12.2	10.1	12.3
New Madrid Earthquake	8.8	9.3	12.0	11.0	12.1	15.8
Japanese Earthquake	8.5	7.8	8.6	10.0	9.7	10.6
Terrorism	7.3	6.2	7.3	8.3	6.8	7.2
Japanese Typhoon	5.6	5.3	5.4	6.6	6.6	6.9
UK Flood	4.1	4.7	4.8	5.5	6.0	6.2
Aviation Collision	3.0	3.2	3.5	2.7	3.1	3.3
Political Risks	2.6	2.4	2.4	2.4	2.0	2.0
Loss of Major Complex	2.4	1.7	1.6	5.4	5.1	3.3
Marine Event	2.0	2.2	2.4	1.7	2.2	2.3
Liability Risks	1.9	1.5	1.9	1.8	1.4	1.4
Satellite Risks	1.0	0.9	0.8	1.0	0.9	0.7

The Realistic Disaster Scenarios (RDS) are as follows:

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. It is assumed 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.

- 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 Wind Storm (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 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.

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 originating from the Raymond Fault in 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 originating from the Hayward Rogers in San Francisco.

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 50 metres per second (112 mph or 97 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, Luxembourg, Germany and Denmark. This event results in an estimated Industry Property Loss of US\$31bn.

New Madrid Earthquake - Due to the uncertainty surrounding the frequency and potential cost of a New Madrid earthquake, syndicates are required to provide returns for two hypothetical events.

- A US\$47 billion Industry Property (shake and fire following) Loss, gross of take-up rates and including consideration of demand surge.
- And a so-called extreme stress scenario - A US\$107 billion Industry Property (shake and fire following) Loss, gross of take-up rates and including consideration of demand surge, originating within the New Madrid Seismic Zone near Mississippi county.

Japanese Earthquake - This event is based on the Great Kanto event of 1923 with an estimated Industry Property Loss from this event of US\$51 billion.

Terrorism - Syndicates are now required to complete returns for the 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 US\$15bn.

UK Flood - This event is based on a Thames river flood event which results in an assumed Industry Insured Loss of £6.2bn.

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 up to five Political Risk loss scenarios based on losses triggered by the following events:

- 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.

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 modeled. 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.

- i) 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
- ii) 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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