

# TALISMAN

— UNDERWRITING PLC —

## Report – July 2015

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# Talisman Underwriting Plc

## Report – July 2015

### 1. Introduction

The directors are pleased to report that the 2012 underwriting year of account closed on 31 December 2014, with a pure profit of 11.5% of capacity. This exceeds the range forecast 12 months ago of between 3.92% to 10.09%. All the syndicates supported, closed with a profit.

The current forecast for the 2013 underwriting year of account is a profit on capacity in the range of 5.7% to 11.9% with a mid point of 8.8%. As this year is developing in a similar manner to 2012, we would expect the year to close at the upper end of that range.

The current forecast for the 2014 underwriting year of account is a profit on capacity in the range of 1.9% to 9.6% with a mid point of 5.8%. This year of account will not close until 31 December 2016 and many policies remain on risk. Nonetheless we remain optimistic for another good result based on current data.

The forecasts for 2013 and 2014 are better than might have been expected, due to the absence of catastrophe losses. If we apply a normal level of catastrophe experience to the loss ratios, there is still a profit margin in the business.

Whilst Talisman reports on the year of account basis, Lloyd's in its global accounts reports on the calendar year 2014. In his report the chairman John Nelson stated "I am very pleased to be able to report that 2014 was another outstanding year for the Lloyd's market. Profits were £3.2billion, the combined ratio was 88.1% and the return on capital was 14.7%. These excellent results were achieved against the backdrop of continuing extremely low interest rates and softening premium rates, counterbalanced by a second consecutive year of fewer major claims on the Lloyd's market".

Lloyd's has some great opportunities ahead but it is also facing a number of challenges. Of greatest concern is the excess of capital coming into the insurance market, partly caused by low interest rates, which are having the effect of lowering premium rates and in part changing the way in which business is being structured particularly in the reinsurance market.

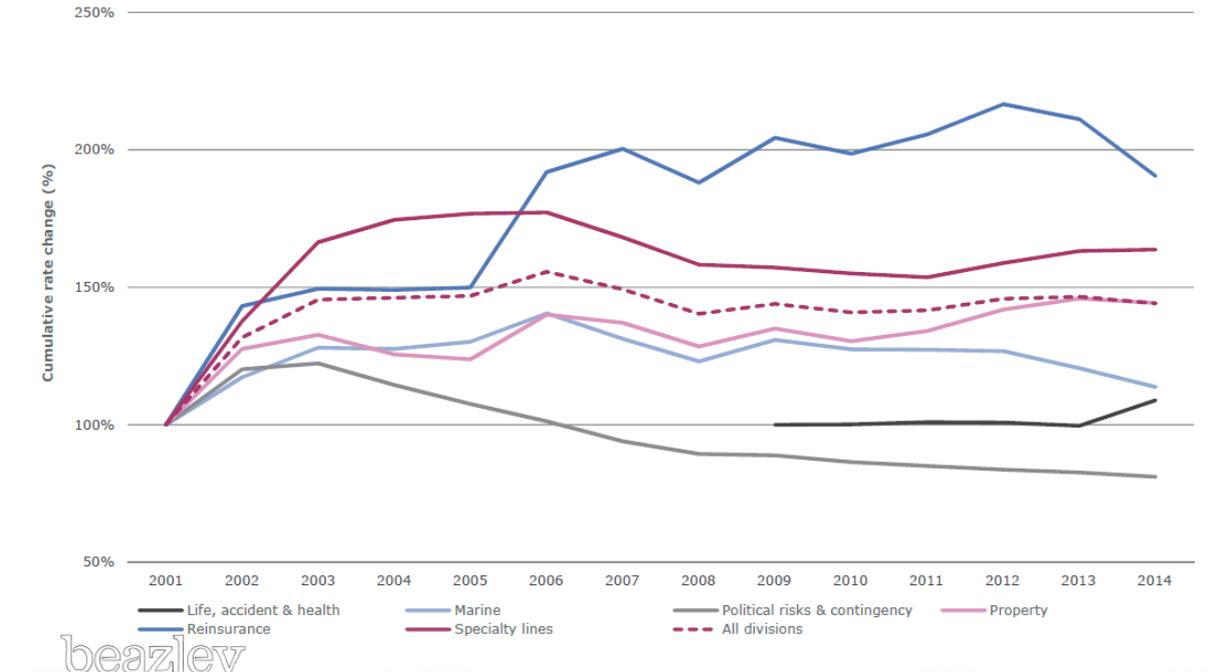
The capital markets see insurance as a diversifying asset class with attractive returns. It is particularly so when looking at the property catastrophe reinsurance market. The excess of capital coming into the market will put further pressure on rates, terms and conditions and coverage. It must however be noted that the rating levels in some classes remain at very satisfactory levels and that the most significant reductions are in the reinsurance sector. Although reinsurance is a major part of many syndicates inward business it is also in many cases the single largest expense. More syndicates are buyers of reinsurance than sellers. With few exceptions, syndicates have been able to improve the breadth and depth of cover they have bought, typically at a lower price.

This is all happening at a time when the global economic picture is mixed. There are strengthening levels of economic growth in the US and in the UK but in continental Europe it remains more difficult.

Lloyd's continues to seek more business in the developing markets but, although rates are better than in the UK and US, the amount of business written remains modest. Improving global access is the key objective for Lloyd's and work continues in developing various platforms and hubs around the world.

The chart below shows the cumulative rate changes since 2001 for the Beazley Syndicate 623 which whilst demonstrating the fall in the reinsurance rates since their peak in 2012 shows a more modest reduction when looking across all divisions.

### Cumulative rate changes since 2001



For the first quarter of 2015, insurers and reinsurers reported benign loss experiences and no significant insured catastrophe activity. The tragic earthquake that struck Nepal on 25 April has caused considerable economic loss (currently estimated at \$5billion) but only a fraction will be incurred by insurers as so much of the loss was not insured.

The aviation market, however, continues to suffer losses. Germanwings flight 9525 from Barcelona to Dusseldorf crashed into the French Alps, 100km north of Nice, on 24 March 2015. All 144 passengers and six crew were killed. As a consequence of pilot suicide, the loss will be picked up by the war insurance policy. The liability loss, which will be by far the largest portion of the claim will remain with the all risk underwriters and could make its way into lower levels of reinsurance programmes.

## 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
Estimated 31/3/15	2013	8.8	6.2
Estimated 31/3/15	2014	5.8	5.0

Results for all closed years include movements in prior years and underwriting expenses including the member's agents fee. Estimates for 2013 and 2014 are from figures published as at 31 March 2015.

## 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

It is intended that the dividends payable on the 2012 year of account will be made in July and December 2015.

#### **4. Result for the 2012 Year of Account**

The 2012 underwriting year of account closed at 31 December 2014 and the syndicates which Talisman supported produced an aggregate pure profit of 11.5% of capacity. The major event in 2012 was superstorm Sandy which struck the Caribbean and the Eastern states of the US and Eastern Canada. It was a significant claim to Lloyd's being the second most costly since Hurricane Katrina in 2005. The pure underwriting account benefitted from some investment income but was boosted by the releases from prior years representing about 40% of the bottom line profit. The strength of the US dollar relative to Sterling at the closure of the account was a further benefit.

All of the syndicates supported by Talisman for the 2012 account were profitable. Not surprisingly, due to the lack of major events, those writing catastrophe risks produced the better results.

#### **5. Forecast for the 2013 Year of Account**

The current forecast for the 2013 year of account is a profit in the range of 5.7 % to 11.9% of capacity with a midpoint of 8.8%.

The 2013 calendar year saw an absence of major catastrophes and experienced one of the quietest hurricane seasons in the north Atlantic in the past 20 years. Notwithstanding that, the world experienced many weather related events including flooding in Central Europe, and Alberta in Canada, tornadoes in Oklahoma City, hailstorms in Germany and super typhoon Haiyan causing devastation in the Philippines.

The final result will be dependent on the releases from reserves and the strength of the US dollar relative to Sterling. We expect the account to close at the upper end of the range forecast and those syndicates writing catastrophe business will again have the better results.

#### **6. Forecast for the 2014 Year of Account**

The 2014 year suffered from various weather related losses the costliest being the storm in Europe during June with an insured loss of \$3billion. Other storms costing over \$1billion were in the US, Japan and Mexico. In all cases the economic loss was a greater sum, of often double the insured loss, which demonstrates that in the developed countries there remains considerable opportunity for growth. The drought in the US is also estimated to have an insured loss of \$1.5billion although the economic loss is \$4billion.

Overall the 2014 year of account has benefited in a similar way to the previous year from a lack of major catastrophes and the first official forecasts, which we received at the end of May, suggest a profit in the range of 1.9% to 9.6% of capacity with a midpoint of 5.8%.

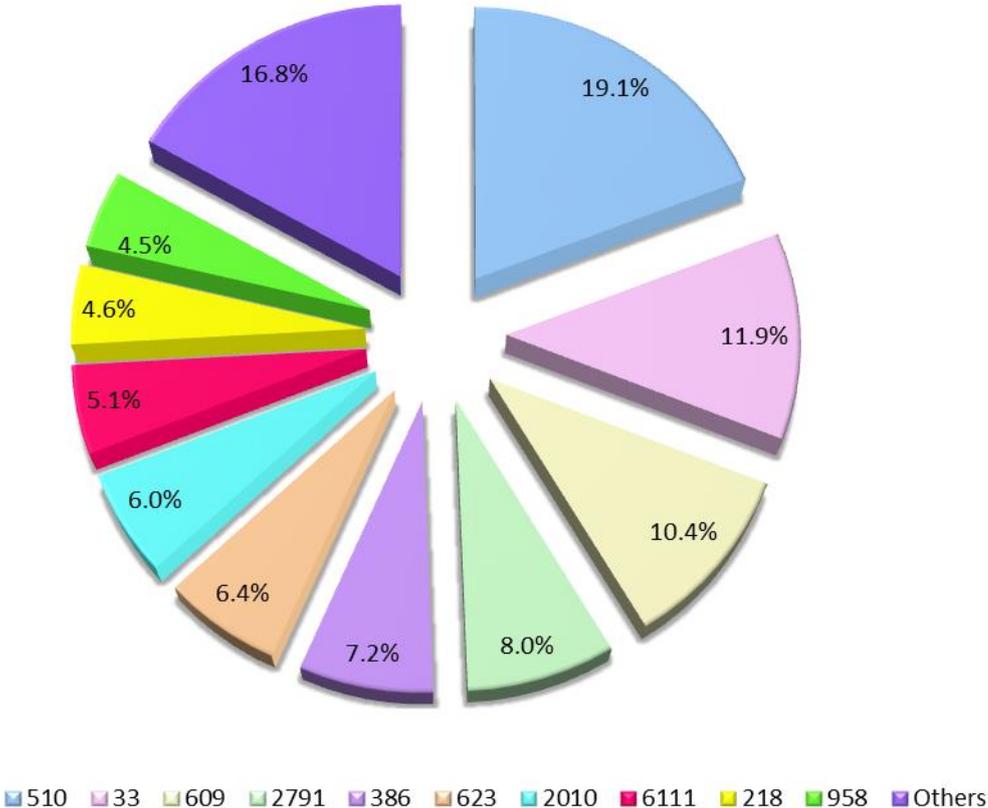
These are similar to the forecast for the 2013 account at the same time in development despite a more competitive market, particularly in the reinsurance sector, and for some lower levels of income. Many policies remain on risk but, in the absence of any significant events before year end, we can be optimistic of another good result.

## 7. Portfolio Planning

### Talisman – Syndicate Split 2015

The principal syndicates supported in 2015 are illustrated below in capacity order.

Full details are given in Section II.



As we move through the softer part of the cycle many syndicates will have a significant amount of spare capacity and, as detailed in Part II of this report there were some meaningful de-emptions affecting the programme for 2015. The two LLPs purchased at the end of 2014 had syndicate capacity that fitted well with Talisman’s portfolio and there was little need to use the auctions.

The changes made by syndicates to their business plans for 2015 are of more relevance and should lead to an increase in direct property business and a reduction in reinsurance.

Historically, Talisman has not supported new syndicates in their first year but for 2015 has allocated just under 1% to a new marine Syndicate 1884 which, due to its relationship to the “Standard Club”, a mutual insurance association owned by its ship owner members, has the ability to bring new business to the Lloyd’s market and we believe has a unique opportunity to develop profitably for the benefit of members over the coming years. It may well make a small loss in year one but we are taking a longer term view and avoiding any cost of entry.

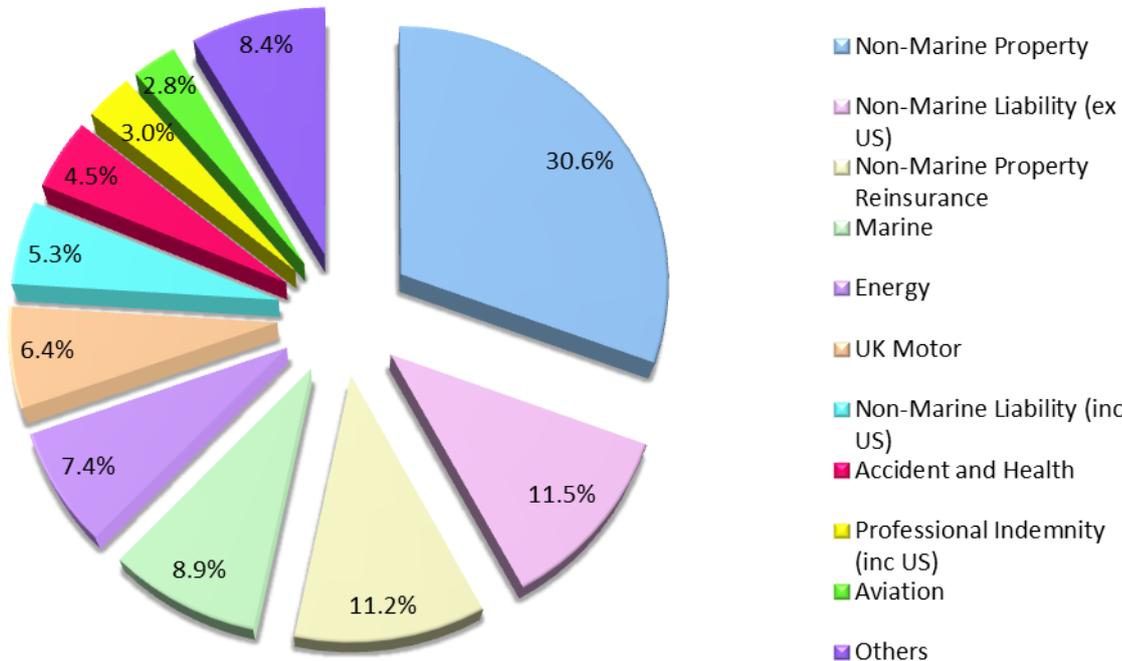
Talisman has also allocated 0.5% to non marine Syndicate 1991 in its third year of operation. We will be monitoring the development of these two participations very carefully.

## 8. Market Trends and Renewals

### Overview

The insurance and reinsurance markets are suffering from an over supply of capital and a consequential fall in rating conditions in most sectors of the market. This is perhaps not surprising given recent profit levels at a time when yields on other investments are low. All syndicate business plans for 2015 detail the expectation of a satisfactory profit but in the final analysis the cost of major catastrophes will dictate the bottom line.

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



### Non-Marine Property

Property is the largest source of income for Lloyd’s with business coming through the broker network but also with a considerable amount coming through cover holders and by the use of delegated authorities. Lloyd’s underwriters have some very long standing and successful trading relationships in this sector and some growth is being seen, particularly for business from the US. Talisman is writing more of this class in 2015 than before with a corresponding reduction in our reinsurance book of business.

As with almost every sector of business there is a surplus of capacity and a downward trend in pricing seems inevitable as we move through the year. However, that is mainly affecting the open market risks rather than those that come through cover holders. Underwriters continue to look for new accounts and areas of business where a satisfactory margin remains. The ability to purchase reinsurance more cheaply is clearly to the benefit of this class.

## **Non-Marine Property Reinsurance**

The amount of income received for this class of business reduced during 2014 as a result of competitive pressure. Fortunately the year was relatively catastrophe free and the major losses tended to affect the direct writers rather than the reinsurers.

There was an absence of natural catastrophes during 2014 and it was a very quiet hurricane season in the North Atlantic. The tropical cyclone season in the Eastern Pacific included a high number of storms though most failed to make landfall. The exception was Hurricane Odile in September which struck Mexico's Baja California peninsula with record wind speeds of over 125 miles per hour.

Unless there is a major catastrophic event or change in the economic environment, including interest rates, there is unlikely to be any change to the current downward pressure on rates and underwriters will continue to prune their book and concentrate on their best performing renewal accounts. However when reviewing the June and July renewals there are early signs of price stabilization starting to emerge in peak catastrophe zones.

## **Non-Marine Liability**

Business in the casualty market should start to grow as the world economy recovers. As ever, there is competition in this class with some insurers entering the sector looking for diversification. Historically investment earnings have been important to this class due to its long term nature. Nonetheless the sector is marginally profitable and good renewal accounts such as those of Syndicate 386 will be carefully guarded.

Going forward the cyber market at Lloyd's continues to expand in response to greater demand encouraged by high profile losses and evolving legislation. The governments and regulators are increasingly looking to insurers to drive up cyber security standards. There is also greater recognition of the impact of cyber exposures upon other lines of business and specific products covering property damage caused by cyber events are now available.

Indeed exposure to cyber risk is the most topical issue for both insurers and clients. This by its very nature is fast moving and fluid. One expert likened it to a new and very specific storm being invented daily.

Past accreted data or generic industry wide knowledge is much less able to predict the outcome than would be the case for exposure to natural perils such as fire, earthquake or windstorm.

Therefore, modelling techniques of a totally different type will need to be developed to help the industry cope with this peril. Any such products are in their infancy and a very significant amount of time and money will need to be spent to ensure that businesses and indeed governments are protected from cyber related issues.

## **Marine**

Conditions in the marine market remain difficult due to overcapacity and are unlikely to improve until the global economy improves and there is an increase in trade volumes and insured values.

The Costa Concordia loss has highlighted the difficulties in wreck removal of large vessels in environmentally sensitive areas. With ships and cargo loads ever increasing in size the successful salvage of vessels and their cargos is becoming increasingly challenging.

## **Energy**

The performance of the energy sector can be very dependent on windstorm activity particularly in the Gulf of Mexico. With the lack of events the performance of this class has been satisfactory.

The low oil price has had a dramatic effect on investment in the energy sector with many projects being postponed. The premium for construction risks, both offshore and onshore, is thus going to reduce in volume.

## **UK Motor**

The UK motor market remains challenging and the legal reforms introduced in 2013 are only now starting to have any real impact. Talisman's main exposure to this class is through its participation on motor Syndicate 218. Its results are profitable but borderline despite the significant changes made to the business written and operation of the syndicate.

We do however have confidence in the management and owners of the syndicate who have a clear strategic plan as to how they wish to develop the business going forward for the benefit of capital providers. The market remains competitive but their model is to source business in specialist categories through the broker network and not use the comparison sites on the internet which are price driven.

## **Accident and Health (A&H)**

For many this has been a consistently profitable class of business and this has attracted new entrants looking for diversification. However due to current market conditions, a wave of excess capital and greater empowerment of brokers, it is going to be difficult for underwriters to expand and maintain the current level of profitability.

## **Aviation**

Aviation in terms of income is a small class of business for Lloyd's but one which was impacted by significant claims during 2014 including Malaysia Airlines flight MH370 which disappeared in March whilst flying from Kuala Lumpur to Beijing and the loss of flight MH17 which was allegedly shot down over Eastern Ukraine in July. Other losses included Air Algerie AH5017, Trans Asia GE222 and in the closing days of 2014, Air Asia QZ8501.

In the aviation war market the prolonged period of fighting at Tripoli airport in Libya has resulted in significant claims arising from the severe damage and destruction of numerous aircraft. It was also a disappointing year for satellite launches.

It is fortunate for this class that there has been a significant release from the back year reserves. Whilst it would be natural to assume that trading conditions in the aviation sector will be increasing, regrettably that is not the case due to the excess capacity available.

## **9. Conclusion**

Lloyd's continues in its engagement with brokers and underwriters around the world to ensure it remains at the forefront of innovation be that developing new products such as Cyber or improving process efficiency. In today's market, scale, conduct and competitiveness have never been more important.

Innovation is the natural response to new challenges. Lloyd's has been in existence for 327 years and more than ever it continues to demonstrate its ability to change and grasp the opportunities ahead. Underwriters will be working with their customers to provide solutions to their problems and seize opportunities as they arise.

Lloyd's makes great effort to communicate the economic and social benefits of increasing insurance protection to governments in developing markets. In particular Lloyd's emphasises the value of international diversification of their insurance markets leading to greater and sustainable economic growth. Lloyd's now has a branch licence in Beijing, permission to open its platform in Dubai and a representative office in Mexico City as well as opening up in new markets including India and Turkey.

Distribution is a key part of the insurance market and the three main brokers (Aon, Marsh and Willis) dominate the London Market. They are there to service their customers and want to deliver more choice at a fair price. At this point of the cycle they too are under pressure and seek to improve their cost base and efficiency. The recent announcement of the intention of Willis to merge with Towers Watson is good evidence of this.

At this point in the cycle the word "consolidation" comes to the forefront, be it for supply or distribution. In the Lloyd's market the most notable acquisition is of Catlin by X/L, an exercise that appears to have been undertaken swiftly and efficiently. They expect to gain by having access to more business and being very "relevant" to brokers and clients. The acquisition of Chubb by Ace has just been announced and other mergers and acquisitions are expected.

No business can afford to stand still, as there will always be opportunities. They need to grow in specialised areas where they can add value and use their knowledge and information. Developments can be in new or existing markets with both new and existing products. However there is a cost which is easier to bear if you have size which is another driver for mergers.

The result for 2012 is good as are the forecasts for 2013 and 2014. However, the market has benefitted from a fortunate claims experience and the market is more difficult and softer than might be apparent. Lloyd's has weathered soft markets and difficult times before. The maintenance of a disciplined approach and the ability to make sensible decisions will separate the winners from the losers at this stage of the cycle. For Talisman, syndicate selection is paramount and, as can be seen later in this report, we concentrate our capital on those businesses that we believe can fulfil that objective and employ experienced underwriters who have traded through these conditions before and made profits.

We are as ever dependent on the managing agents to produce a business plan for their syndicates that is realistic in today's market. Insurance linked securities (ILS) have changed the reinsurance market and whilst low interest rates may have initiated the expansion of ILS, their position on the insurance market is unlikely to reduce. Managing agents know this and are planning accordingly.

The insurance business has always been cyclical and we are in the lower half of the cycle. Something will happen to reverse that and we will be more cautious in our approach. In the meantime Talisman participates in a market with a robust regulatory framework. Section II of this report contains information concerning the work demanded by Lloyd's from syndicates on Realistic Disaster Scenarios. This is detailed and challenging work. Additionally, Lloyd's has strong central management and there is a strong management within the managing agents of syndicates supported. Above all we continue to rely upon the skills of underwriters who, with their managers, and with the encouragement of Lloyd's centrally, are demonstrating a willingness to underwrite well within premium income limits at this stage in the cycle.

**SECTION II**

## 10. Syndicate Participations

Detailed below are the Company's syndicate participations for the 2012 account onwards.

Syndicate	Underwriter	Managing Agent	Allocated Premium Limit			
			2012 £	2013 £	2014 £	2015
33	P Lawrence	Hiscox	2,071,165	2,166,166	2,451,786	2,499,807
218	M Bacon	ERS	1,125,000	1,125,000	1,173,406	962,725
318	D Eales	Beaufort	657,499	657,499	675,112	705,112
386	D Harries	QBE	1,357,809	1,457,809	1,710,327	1,503,464
510	Various	Tokio Marine Kiln	3,288,577	3,469,966	3,839,978	4,004,978
557	D Huckstepp	Tokio Marine Kiln	0	0	26,554	0
609	R Harries	Atrium	1,700,000	1,860,000	2,087,628	2,182,506
623	N Maidment	Beazley	1,100,000	1,152,788	1,366,911	1,344,134
727	M Meacock	Meacock	327,723	327,723	327,723	352,723
958	S Gargrave	Canopus	1,200,000	942,866	880,765	949,636
1884	R Dorey	Charles Taylor	N/A	N/A	N/A	200,000
1969	N Jones	ANV	0	0	46,608	281,838
1991	D Wright	R&Q	N/A	0	29,246	109,623
2010	J Hamblin	Cathedral	1,000,000	1,212,400	1,346,823	1,257,221
2121	I Maguire	Argenta	514,358	550,000	711,387	771,387
2525	D Dale	Asta	0	59,048	109,048	109,048
2791	R Trubshaw	MAP	1,750,000	1,810,000	1,827,707	1,676,582
4020	N Bonnar	Ark	588,477	N/A	N/A	N/A
6103*	R Trubshaw	MAP	0	10,000	23,273	27,126
6104**	M Krefta	Hiscox	0	110,000	190,000	250,000
6105***	N Bonnar	Ark	N/A	327,236	621,380	670,929
6106****	S Beale	Amlin	100,000	100,000	N/A	N/A
6111*****	J Gale	Catlin	500,324	795,000	991,771	1,072,805
<b>TOTAL</b>			<b>17,280,932</b>	<b>18,133,501</b>	<b>20,437,433</b>	<b>20,931,644</b>
		<b>No. of Syndicates</b>	<b>15</b>	<b>18</b>	<b>20</b>	<b>20</b>

\* 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 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 2015 are detailed below.

Syndicate	Underwriter	Managing Agent	Pre-Emption %	De-Emption %
218	M Bacon	ERS		20.00
386	D Harries	QBE		14.64
623	N Maidment	Beazley		6.80
958	S Gargrave	Canopus	5.71	
2010	J Hamblin	Cathedral		12.50
2791	R Trubshaw	MAP		11.74

## 12. Syndicate Purchases

The following capacity was purchased during the 2014 auctions for support in 2015.

Syndicate	Managing Agent	Capacity £	Cost £
609	Atrium	40,000	15,035
623	Beazley	30,000	18,780
1969	ANV	200,000	41,115
2791	MAP	40,000	19,315
		<b>Total</b>	<b>94,275</b>

## 13. Acquisitions

Talisman has now made a total of four acquisitions. Since our last report, Talisman has purchased D S Adams LLP and Ashmore Underwriting LLP. In both cases the consideration was in part an issue of shares.

The following capacity was acquired by the purchase of Adams and Ashmore.

Syndicate	Managing Agent	Adams	Ashmore	Total Capacity £
33	Hiscox	48,021		48,021
218	ERS	30,000		30,000
318	Beaufort		30,000	30,000
386	QBE	51,033		51,033
510	Tokio Marine Kiln	65,000	100,000	165,000
609	Atrium	54,878		54,878
623	Beazley	45,274		45,274
727	Meacock		25,000	25,000
958	Canopus	17,539		17,539
1991	R&Q	14,623	25,000	39,623
2010	Cathedral	40,000	50,000	90,000
2121	Argenta		60,000	60,000
2791	MAP	31,913		31,913
6103	MAP		16,609	16,609
6104	Hiscox		40,000	40,000
6105	Ark		40,000	40,000
6111	Catlin	27,296	48,860	76,156
			<b>Total</b>	<b>861,046</b>

## 14. Business Split Analysis

The table below shows the estimated business split of Talisman for the 2015 Year of Account. As a comparison, we show the market average for all capacity available to third party capital providers and the figures for 2013 and 2014. The company continues its bias towards Non Marine Property and has reduced its exposure to Non Marine Property Reinsurance.

Risk Category	Talisman %			Market Average %		
	2015	2014	2013	2015	2014	2013
Non Marine Property	30.6	28.5	27.9	29.3	27.7	26.3
Non Marine Liability (Ex US)	11.5	11.3	9.0	9.6	9.2	7.4
Non Marine Property Reinsurance	11.2	15.0	19.6	13.0	17.3	22.7
Marine	8.9	8.4	7.8	8.2	7.9	6.9
Energy	7.4	8.0	7.4	6.3	7.4	6.5
UK Motor	6.4	5.3	6.2	6.7	5.0	5.6
Non Marine Liability (Inc US)	5.3	4.7	3.7	6.3	5.5	4.5
Accident & Health	4.5	4.6	3.9	4.2	4.5	4.2
Professional Indemnity (Inc US)	3.0	2.6	2.9	3.4	2.7	2.9
Aviation	2.8	3.0	3.2	2.4	2.6	2.6
Professional Indemnity (Ex US)	2.4	2.7	2.4	2.7	2.7	2.6
Pecuniary Loss/ Political Risk	2.4	2.4	2.3	2.7	2.7	2.4
Marine Reinsurance	1.2	1.1	0.8	1.0	0.8	0.7
Non Marine Liability Reinsurance	1.1	1.0	1.1	1.5	1.1	1.0
Space & Satellite	0.8	0.8	1.1	0.8	0.7	1.0
Aviation Reinsurance	0.8	0.8	1.0	0.7	0.8	0.8

## 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. In line with the market, Talisman has reduced its exposure to the major catastrophe scenarios.

Catastrophe Scenario	Talisman %			Market Average %		
	2015	2014	2013	2015	2014	2013
Two Events	22.5	24.9	21.3	27.2	32.2	30.1
North East Windstorm	11.7	13.8	13.4	14.4	17.9	18.7
Californian Earthquake	11.6	12.4	11.5	13.6	15.5	15.0
Gulf of Mexico Windstorm	11.2	13.6	13.1	13.4	17.0	17.7
Florida Windstorm	10.5	11.9	11.9	12.8	15.3	16.4
New Madrid Earthquake	8.5	8.5	8.8	10.1	10.7	11.0
European Windstorm	7.6	9.2	9.6	9.4	11.4	12.2
Terrorism	7.4	6.8	7.3	8.0	7.8	8.3
Japanese Earthquake	6.3	7.7	8.5	7.5	9.1	10.0
Loss of Major Complex	5.0	2.9	2.4	7.3	6.2	5.4
UK Flood	4.8	4.3	4.1	5.5	5.6	5.5
Aviation Collision	4.7	4.1	3.0	4.3	3.9	2.7
Japanese Typhoon	4.2	5.0	5.6	5.1	5.8	6.6
Political Risks	3.6	3.6	2.6	3.9	3.7	2.4
Marine Event	3.3	2.9	2.0	3.2	2.7	1.7
Liability Risks	3.2	2.7	1.9	3.0	3.2	1.8
Satellite Risks	1.9	1.1	1.0	1.8	1.2	1.0

## 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.

### North East Windstorm (See Two Events above)

**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.

**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.

**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.

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

- Rockefeller Center Event - The Midtown Manhattan area, New York, at 11:00am on 1st January suffers a 2-tonne bomb blast attack causing collapse and fire following within a radius of 200m, massive debris damage to surrounding properties up to a radius of 400m and light debris damage to surrounding properties up to a radius of 500m. 1,000 blue/white collar worker deaths and 2,500 injuries in total.
- Exchange Place Event - The lower Manhattan area, New York, at 11:00am on 1st January suffers a 2-tonne bomb blast attack causing collapse and fire following within a radius of 200m, massive debris damage to surrounding properties up to a radius of 400m and light debris damage to surrounding properties up to a radius of 500m. 1,000 blue/white collar worker deaths and 2,500 injuries in total.

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

**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<sup>2</sup> of western London.

**Aviation Collision** – Assumes a collision between 2 aircraft over a major city, anywhere in the world, using the syndicate's two highest airline exposures. Assumes a total liability loss of up to US\$4 billion, comprising of up to US\$2 billion per airline and any balance up to US\$1 billion from an air traffic control liability policy(ies) and/or a major product manufacturer's product liability policy(ies), where applicable.

**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.

**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

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

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

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

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

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

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

## THE COMPANY

<b>Chairman</b>	Peter Steel
<b>Directors</b>	Robert Eaton David Monksfield Paul Sandilands
<b>Company Secretary</b>	Graham Hodgson
<b>Registered Office</b>	Fountain House 130 Fenchurch Street London EC3M 5DJ Tel: 020 7825 7139 Fax: 020 7825 7212 Email: talisman@argentapl.com
<b>Company Registration Number</b>	03370297

## ADVISORS

<b>Auditors</b>	<b>PKF Littlejohn LLP</b> Statutory Auditor 1 Westferry Circus Canary Wharf London E14 4HD
<b>Members' Agent</b>	<b>Argenta Private Capital Limited</b> Fountain House 130 Fenchurch Street London EC3M 5DJ
<b>Solicitors</b>	<b>Mills &amp; Reeve LLP</b> Botanic House 100 Hills Road Cambridge CB2 1PH
<b>Bankers</b>	<b>Coutts &amp; Co</b> 440 The Strand London WC2R 0QS