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Sportscover Syndicate 3334

Syndicate Annual Accounts
For the year ended 31st December 2014

Sportscover Syndicate 3334

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Contents of Report and Accounts

Report of the Managing Agent

The managing agent presents its report for the year ended 31st December 2014. Sportscover Underwriting Ltd (SCU) is currently responsible for managing the affairs of Syndicate 3334 only.

Statement of Managing Agent's responsibilities

The managing agent is responsible for preparing the syndicate annual accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare syndicate annual accounts for Syndicate 3334 at 31st December each year which give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

In preparing these syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently, with the exception of changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material differences disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that there will be future years of account of the syndicate.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors

The names of the persons who were directors of the managing agent at any time during the year and to the date of signing of this report are set out below:

Peter Nash	*Chairman*
Matthew Riley	*Chief Executive Officer*
Murray Anderson	*Active Underwriter*
Belinda Taylor	*Director of Finance*
Christopher Nash	*Director of Underwriting & Claims*
Dominic Ford	*Director of Compliance & Risk Management and Company Secretary*
Bryan Murphy	*Non-executive Director*
David Flett	*Non-executive Director*
Malcolm Beane	*Non-executive Director*

Review of the business

Background

Syndicate 3334 is a specialist insurer of sport and leisure risks providing personal accident, public liability, property, contingency and directors and officers cover. The core sports and leisure book has been supplemented with a travel insurance offering since 2009 and bloodstock insurance from 2011 to 2013. Syndicate 3334 is the only dedicated sports and leisure syndicate in the Lloyd's market, focusing mainly on amateur sports risks but with some carefully selected professional and semi-professional sporting activities and targeted leisure risks also accepted. As a specialist insurer with considerable experience in its field, Syndicate 3334 is able to tailor its products to meet the particular needs of its sports and leisure clients.

Capacity

The syndicate commenced underwriting for the 2006 account with allocated capacity of £8 million utilising the experience of its underwriting team to underwrite leisure as well as sports risks, having over twenty years of experience in the latter prior to the syndicate inception.

Report of the Managing Agent *continued*

Review of the business *continued*

Capacity continued

The capacity has been increased incrementally over the 2008 to 2011 years of account with capacity for the three years open during calendar year 2014 being as follows:

- 2012 year of account £44.9m (with a plan stamp gross premium written level of £42.5m)
- 2013 year of account £42.7m at both capacity and plan stamp gross premium written levels
- 2014 year of account £45.7m at both capacity and plan stamp gross premium written levels

Sources of business

A key driver in the increase in capacity was the addition in the second half of 2009 of a complementary book of travel business to the syndicate portfolio in order to further diversify the underwriting portfolio. The book written through an established third party cover-holder with many years of experience in this segment was limited to Australian and New Zealand travellers only. The introduction of this class of business allowed the syndicate also to offer a sports travel product for the existing client base to provide a more complete suite of products. The third party travel binder achieved significantly higher volumes than forecast due primarily to the favourable Australian dollar exchange rate in the recent past which encouraged travel from Australia, a position which has continued in each subsequent calendar year, even after a weakening of the Australian dollar against major currencies from calendar year 2013. During the calendar year 2013 the travel class of business accounted for 54% of the stamp gross written premiums. On 1st August 2014 the travel arrangement with the third party cover-holder ceased and travel business refocused on less marginal risks. The residual travel insurance book is small (1% of overall travel premiums) but is an important offering to the syndicate's sports insureds. In the year ended 31st December 2014 the travel class of business accounted for 42% of the stamp written premium.

The majority of business written by the syndicate to the public liability, personal accident, property and directors and officers classes of business still comes from binding authorities granted to two underwriting agencies, namely Sportscover Australia Pty Ltd and Sportscover Europe Ltd. These agencies are currently within the same group as the managing agent and operate as service companies. Their binding authorities are for a 12 month period, historically commencing in August, and the individual risks attach to the year of account in which the binding authorities commence. In the year ended 31st December 2014 the binders attaching to the 2013 year of account were cut-off as at 30th June 2014, with this year of account having reached its premium limit, and the 2014 year of account binders thus incepted on 1st July 2014. This means that the business written in calendar year 2014 is allocated to both the 2013 and 2014 years of account enabling the syndicate to utilise more fully its capacity. The 2014 year of account will continue to be written during calendar year 2015. These core classes of business accounted for 48% of the calendar year 2014 stamp gross written premiums (2013: 36%). This includes business written through third party binders managed by the Sportscover underwriting agencies.

A new class of business was added to the 2014 year of account, being employers' liability, with coverage only to be provided in the United Kingdom and Ireland. The underwriting team in Sportscover Europe Ltd have experience of underwriting this risk code, with current business having been placed through an external insurance binder arrangement since 2004. Premiums have attached to the 2014 year of account from November 2014, when the previous agreement expired. Due to only two months of premiums attaching, the total premiums written in in the year ended 31st December 2014, are less than 1% of total stamp gross written premiums for the year.

During 2014 the above-mentioned binding authorities were supplemented by direct underwriting business written through established cover-holders and also in the open market. The employment of a dedicated contingency underwriting team from June 2010 resulted in an increase in open market business being written by the syndicate. The contingency business accounted for 9% of the calendar year 2014 stamp gross written premiums (2013: 8%).

The syndicate further diversified in 2011 due to the employment of an experienced bloodstock underwriter. The conditions for this market were difficult during both 2011 and 2012 and business was turned away because rates were too low to enable the business to be written profitably. During calendar year 2013 the board agreed to place the bloodstock business into run-off and to exclude this class from the 2014 business plan. Consequently no new bloodstock risks have been written in calendar year 2014 and only adjustments to live risks running in to calendar year 2014 have been accounted for, totalling 1% of the calendar year 2014 stamp gross written premiums (2013: 2%).

Report of the Managing Agent *continued*

Review of the business *continued*

The portfolio mix of stamp gross written premiums attached to each of the three open years compared to the portfolio mix forecast in each of the syndicate business plans is set out below. The ultimate forecast for the 2014 year of account is also included, given the changes made to the portfolio mix in year one of underwriting this year of account. Further information is provided in the year of account analysis within 'Review of activities in the year'.

%	2012 Actual at 36 months	2012 Plan	2013 Actual at 24 months	2013 Plan	2014 Actual at 12 months	2014 Plan	2014 Forecast at 31Dec14
Liability	21	20	18	21	18	24	32
Property	10	7	10	9	8	10	12
Accident	9	9	7	10	4	7	10
Contingency	7	14	8	8	13	10	10
Travel	50	36	55	47	57	49	36
Bloodstock	3	14	2	5	-	-	-
Total	100	100	100	100	100	100	100

Geographic reach

The syndicate underwrites business from over twenty countries with the major markets being Australia, the UK, Ireland, New Zealand, USA, Canada, Scandanavia and China.

Reinsurance programme

The syndicate has a prudent approach to the purchase of reinsurance by having a broad programme covering all lines. This is placed with security rated 'A' or better by one of the major ratings agencies, at the time cover is placed. During 2013 an extensive review was undertaken of the reinsurance programme, as part of a tender process. Whilst a number of alternative ideas were considered, ultimately the structure of the programme remained similar. The property programme which had been supplemented in 2011 with an increase in property catastrophe layers in Australia, recognising the greater probability of catastrophe incidents occurring there, is now predominantly placed in Australian dollars. The retention on risk increased to A$1.0m up from A$625k as reinsurers proved to be reluctant to maintain lower retentions. Lower retentions were considered via other markets but this became cost prohibitive.

In 2009, the syndicate increased its primary layer retention on the public liability programme to be excess of one loss otherwise recoverable. At the time this recognised the relative infrequency of large losses in this account and represented a significant cost saving to the syndicate. Further investigations for the 2012 renewal showed no cost benefit in reducing retentions even though larger claims are now being seen in the liability book. In 2013 the primary layer retention on the liability programme was reduced back to £500k, thus no otherwise recoverable on the first layer. Employers' liability is now included within the programme with a primary layer retention of £250k, solely for UK and Irish business.

The property and liability reinsurance programmes referred to above incepted on 1st October 2013, together with the reinsurance programme purchased for accident cover. The liability and accident programmes were extended to 28th February 2015 and 1st March will become the new anniversary renewal date. The property programme was extended to 31st December 2014 and the renewed programme is discussed below.

Regarding the property programme a decision was made in the 2015 year of account planning process to exclude sports and leisure property risks from the syndicate's business plan other than for the writing of less volatile, lower limit business such as personal sporting equipment insurance. Thus a property programme is not needed to be purchased for the 2015 year of account. However, because the property programme is written on a 'losses occurring during' basis, this has necessitated additional cover being purchased for the run-off of the risks still live in the 2013 and 2014 years of account. Cover has been placed for a twelve month period from 1st January 2015 through to 31st December 2015 as expiring but with an inner aggregate of A$500k/£250k introduced. The need for further run-off cover as at 31st December 2015 will be assessed at the end of the year, by which time the amount of live risks will have significantly reduced.

The exception to this is the property catastrophe cover (which has been a separate contract for a number of years). This has been placed for an 18 month period ending 30th June 2016 which will cover the 2015 and 2016 catastrophe seasons in Australia. Supplementary terrorism cover (written on a risks attaching basis) was extended to 30th June 2015, being the last date traditional property risks will attach to the 2014 year of account.

Report of the Managing Agent *continued*

Review of the business ***continued***

Reinsurance programme continued

Separate reinsurances have been purchased for the travel, contingency and bloodstock classes of business and supplemental reinsurance purchased for specific risks, for example, accident cover in China. As travel and bloodstock were written on a 'risks attaching basis' the current or recently expired programmes cover the risks attaching to the main travel binder to the date placed in to run-off and the bloodstock risks written to the date premiums for this class of business last attached. The sundry travel business which will be written going forward is to be covered under the reinsurance programme for accident. The contingency reinsurance programme placed last year on 1st November 2013 was extended through to 31st December 2014 and a new calendar year programme incepted from 1st January 2015.

Review of activities in the year

Overview

The results for the year are set out on pages 17 and 18. On an annually accounted basis the result for the calendar year 2014 is a loss of £10,739,000 (2013: loss of £6,541,000). This is made up of a loss on the technical account of £11,263,000 (2013: loss of £7,091,000) plus an investment return of £524,000 (2013: return of £550,000). Each year of account is analysed separately within this section. The key performance indicators for the calendar year are set out below:

Key performance indicators	2014 (Calendar Year)	2013 (Calendar Year)
Capacity (underwriting year)	£45.7 million	£42.7 million
Gross premiums written	£56.2 million	£87.6 million
Earned premiums, net of reinsurance	£61.6 million	£79.3 million
Acquisition costs	£22.7 million	£38.2 million
Gross premiums, net of acquisition costs	£34.1 million	£50.6 million
Loss for the year	£(10.7) million	£(6.5) million
Acquisition costs as % of gross premiums	39.2%	42.3%
Gross claims ratio on gross premiums earned	67.4%	55.4%
Net claims ratio on net premiums earned	68.3%	55.4%
Combined ratio	118.3%	108.9%
Cash and investments	£6.2 million	£9.0 million
Cash held in overseas deposits	£9.8 million	£11.5 million

A prime feature of the 2014 calendar year is the decision made by the Board of Directors on 19th February 2015 to place the 2012 year of account in to run-off, rather than close at the 36 month mark. This decision was driven by discussions that the Australian service company is engaged in with the Australian Taxation Office regarding what the directors believe is an alternative tax treatment on non-resident insurer taxes which affects the 2012 year result. The best estimate for a positive outcome on taxes already paid by relevant parties in Australia will result in a refund which is likely to be in the region of £3m-£3.5m. The Board did not consider that it would be prudent to book this rebate until the outcome is known. However, closing the account without the benefit of the refund would not be equitable to the underwriting members on the 2012 year of account. Therefore, the Board decided that the most prudent and equitable treatment for underwriting members on the affected years of account was to keep the 2012 year of account open until the outcome is known. A favourable response from the Australian Tax Office to the Australian service company was received on 16th March 2015. This process now has to be replicated by other relevant parties. The tax rebate will be accounted for in full once final settlement is received. An assessment will then be made as to the tax treatment to be adopted for the 2013 and 2014 years of account.

If this level of tax rebate had been included in the results the loss for the year would have decreased to £7.2 million and the revised combined ratio would have been 112.6%.

The cessation of the travel binder on 1st August 2014 has had an impact on the overall gross premiums, net of acquisition costs, written in the calendar year 2014. The total written to the travel class of business in 2014 was £14.5 million compared to £27.5 million in 2013. The managing agent sought to establish new terms on the third-party travel binder to generate an increase in stamp gross written premiums as an offset to the deteriorating loss ratio experienced on this binder in recent years. The cover-holder secured alternative terms elsewhere in the Lloyd's market. The weakening of the Australian dollar has also had an impact on the amount of premiums reported in sterling, of which the travel binder is the predominant class of business. The average exchange rate applied to premiums in 2014 was A$1.83:£1 compared to A$1.62:£1 in 2013.

Review of activities in the year *continued*

Other key features of the results for the year ended 31st December 2014 are considered in the analysis by year of account, set out below. The overall loss for the year comprised a £2.2m GAAP loss on year one of the 2014 year of account, a £0.8m GAAP loss on year two of the 2013 year of account, a £1.9m GAAP loss on year three of the pure 2012 year of account and a £5.8m movement on the RITC brought forward from the close of the 2011 year of account.

Year of account positions
The 2012 year of account was put in to run-off as at 31st December 2014. The decision not to close the year of account at the 36 month mark is explained in the earlier 'Overview' section. The loss as at 31st December 2014 was £9.1 million. This comprises a pure year loss of £3.3 million and prior year movements of £5.8 million. A forecast loss range to take the year to close is for the best case to be a loss of £4.8m, which includes the impact of the contingent tax asset referred to earlier being received, up to a worst case loss result of £9.7 million if such rebate is not obtained and further costs are incurred.

Separate underwriting year accounts for the 2012 year have been prepared for the members of this year of account and a detailed review of the results of this particular year are included therein. Salient features are included in the review by year of account below.

The forecast result for the 2013 year of account at 31st December 2014 is for a return of between +2.95% to -4.31% of capacity.

The 2014 year of account is at a very early stage of development. A forecast profit range is not required to be published at this time; the forecast profitability at this stage of development is for a break-even position.

2012 year of account

- *Cumulative GAAP loss of £9.1m*
- *Movement in 2014 of £(7.7)m comprising £3.5m of earned stamp net written premiums, £0.3m of expense adjustments, investment income of £0.4m and claims charges of £(11.9)m*

2012 pure year of account

- *Cumulative pure year GAAP loss of £3.3m*
- *Gross written premiums, net of acquisition costs: £45.5m*
- *Claims ratios: gross 50.4% and net 51.2% - these are the ratios quoted in the commentary section below*

Prior years of account

- *Prior year movements of £5.8m in 2014, comprising £5.4m adverse movements in claims reserving and £0.4m movement in premiums, net of reinsurances*
- *The prior year movements focus on the underwriting movements and no allocation of any investment income, foreign exchange gains or losses, or expense movements have been allocated to the prior years of account*

Premium written for the pure year of account met expectations at capacity for the year of £45m. Less contingency and bloodstock income was written than plan; the surplus this created being taken up primarily within the travel class of business. The acquisition cost percentage at 42.7% was marginally lower than the planned acquisition cost percentage of 43.1%.

Reinsurance costs compared favourably to plan spend, at 9% of stamp gross written premiums (2012 plan: 11%).

Administrative expenses of £6.8m accorded with the plan rate of £6.7m.

The investment return of £565,000 was lower than plan return of £1,391,000 due to diminished opportunities to generate investments from currencies other than for the Australian dollar.

The main differential lay in the claims ratio, the actual net claims ratio as at 31st December 2014 being 51.2% compared to 40.1% in the plan. The 2012 year of account pure claims net ratio to ultimate was forecast to be 48.3% as at 31st December 2013, and a profit of £0.2m forecast for the pure year at that point in time.

Report of the Managing Agent *continued*

Review of activities in the year *continued*

2012 year of account continued

In 2012 we reported that the Syndicate continued to find considerable challenge in the reserving of its Australian liability account due to the evolving conditions within Australia. The entire Australian liability market was observing super-imposed inflation (and so a position not unique to Syndicate 3334). This statistic was verified by not only our experience, but also by a critical analysis of the publically available Australian Prudential Regulation Authority data from both our internal and external actuarial teams. This volatile environment led us to re-visit all of our case reserves in the back years and to re-calibrate the loss ratios in the younger years. The reserving approach adopted by our internal actuarial team takes in to account the points raised above and is broadly similar to the approach taken by the external actuaries. In essence it has become clear to both Sportscover management and our external actuaries that tort reform has not provided a permanent transformation of the litigation environment in Australia. Consequently the low loss ratios successfully achieved by Sportscover in the early part of the millennium, immediately post tort reform, are no longer achievable. This means that the syndicate's Australian liability book is now running much more in line with the local industry benchmarks for liability and as such these benchmarks are now being used to reserve the book going forward. The ultimate gross liability loss ratio for the 2012 pure year of account is 53% compared to the business plan ratio of 33%. The plan was formulated in calendar year 2011, which pre-dated the impact of the changing environment being evident. This ultimate loss ratio also caters for the run-off of the UK liability book, which is discussed in more detail in the analysis on prior years' movements.

Each service company has a Large Claims Review Team which meets monthly to strategise and review claims which fall under certain criteria and could potentially lead to large settlements. Where early settlement can be achieved this helps lessen the extent of third party and own legal fees being added to the total cost of the claim. Within the Australian claims notified to date is an individual large claim of £1.0m, which is still being investigated, but is felt prudent to reserve for up-front. The amount reserved is close to the reinsurance retention. No other claims of severity have been notified.

The ultimate gross personal accident ratio of 61% (plan: 46%) suffered as a result of high volume of claims in certain Australian schemes and as a result of the single largest contract within the European book experiencing high loss ratios from 2010 year of account onwards. A recalibration of the 2012 year of account premiums was undertaken but it is still expected that this risk will only achieve a break-even position. The risk was not renewed in the 2013 year of account.

The ultimate gross property ratio of 74% (plan: 50%) has been impacted by a large fire claim in Australia, being a total loss of a golf club building, and by a series of claims arising from UK storms in February 2014. Both of these claims events have been subject to reinsurance recoveries.

Both travel and contingency loss ratios exceeded expectations. The travel book is discussed in more detail in the '2014 year of account' review section.

Prior years of account

The Australian claims reserves held strong until the final quarter of 2014 when a late claim was received in to the 2007 year of account (added to reserves at an incurred estimate of £0.5m). This is perceived as an anomalous claim, not expected to recur in later years. The reserve on this late incurred claim exceeded remaining reserves held for this year of account. Some favourable releases had occurred on other settled claims in the 2007 year of account, and together with releases made on the 2006 year of account, the total reserves for these two years increased by £0.2m. Incurred movements on the 2008 and 2009 years of account utilised the brought forward reserves, with most of the movement coming in the final quarter, and on recommendations from the actuaries further reserves of £0.7m to ultimate were booked as at 31st December 2014. The actuaries were also of the opinion that the tail on the liability reserves had moved out as a result of these movements and that further allowances needed to be made for the 2010 and 2011 years of account. As discussed in last year's report the syndicate's Australian liability book is now running much more in line with the local industry benchmarks for liability and as such these benchmarks are now being used to reserve the book going forward. A total of £1.0m additional reserves were added to these two years of account giving a total movement of £1.9m over and above the RITC set at 31st December 2014. In the calendar year 2013 the Australian reserves had only been subject to a marginal movement of £0.3m on the prior year's RITC, validating the strength of the reserves set on close of the 2010 year of account.

Review of activities in the year *continued*

Prior years of account continued

The remaining movements in the closed years in calendar year 2014 have largely stemmed from UK and Canadian liability awards, and to a lesser extent, Irish liability awards. Total movements across all classes (albeit predominantly liability) and closed years of account have been £2.4m for Sterling claims, £0.4m for Euro claims and £0.7m for Canadian dollar claims. The UK book has a weighting towards leisure risks and within the portfolio is a sizeable third party binder which earns out on the last day of each three year underwriting cycle, therefore claims are relatively immature at close of a year of account. Of the Sterling movement £1.8m related to the 2010 year of account where one case which was being vigorously defended at the start of the year was forced in to a settlement by the reinsurers. Net of reinsurance recoveries, this claim settled at £1.1m. Further reserves were then posted to the 2010 year of account to cater for claims still to settle or to be received.

2013 year of account

- *GAAP loss of £0.8m for the CY 2014, cumulative GAAP loss £2.3m*
- *Ultimate loss forecast £0.4m*
- *Gross premiums written, net of acquisition costs: £45.2m*
- *Gross premiums written, net of acquisition costs, earned: £40.6m*
- *Gross claims ratio: 51%*
- *Net claims ratio: 51%*

The premiums written to this year of account are treated as ultimate premiums.

Following the extensive actuarial investigations in to the liability book, both in the UK and Australia, the ultimate gross loss ratio has been booked at 41%. This year of account is still in a very early stage in the development cycle of liability claims but no severe injuries have yet been reported. This is lower than the claims ratio for the 2012 liability book, but this year has experienced a large claims event. It is expected that the Jackson reforms will bring significant savings to the UK liability claims. In addition we have seen the rating environment on our core binders improving in 2013. This coupled with a reduction of service company costs from the 2012 year of account binder renewal date onwards has helped to negate some of the effect of the claims inflation experienced in the last couple of years in the Australian liability book. Rate rises on smaller premium business are easily achieved, although the larger more competed for accounts are more challenging. The service companies have actively managed the non-renewal or ejection of business in to both the 2013 year of account where they have been unable to secure remedial rate increases. This mainly impacts on the liability and accident codes.

Whilst there have been a number of weather related issues throughout February and March 2014 these were somewhat limited in severity compared to prior years and therefore the Australian property book avoided any large scale hits from catastrophe events. The UK property book is subject to a reinsurance recovery arising from UK storms in February 2014. These storms impacted a number of properties and also both the 2012 and 2013 years of account. Property risks remain live throughout calendar year 2015 and therefore the ultimate gross loss ratio of 57% makes allowance for further claims events taking place.

The player accident ultimate gross loss ratio of 53%, is lower than the 2012 year of account ultimate gross loss ratio of 62%. The risk code is benefiting from the walk away from certain historic loss making accounts and the largest European risk which has experienced volume issues in the last two years.

The performance of the contingency book has seen an improvement, with the current ultimate forecast gross loss ratio set at 57%. The contract bonus element of this book which gave difficulties in the past has been successfully reduced, leading to a more balanced portfolio of business within this book and only one cancellation event of note having taken place, which has led to a small reinsurance recovery.

The performance of the travel book has been adversely impacted by a number of large claims. This is discussed in more detail in the '2014 year of account' review section.

Bloodstock has had a poor year with three reinsurance recovery events taking place, one of which was only notified post year-end, but has been catered for in the ultimate gross loss ratio of 133%.

Report of the Managing Agent *continued*

Review of activities in the year *continued*

2014 year of account

- *GAAP loss of £2.2m for the CY 2014 (2013 YOA at this stage: GAAP loss of £1.6m)*
- *Stamp gross written premiums: £21.9m; ultimate forecast £33.9m*
- *2013 YOA at this stage had stamp gross written premiums of £33.1m*
- *Acquisition costs as a % of gross written premiums 41%; ultimate forecast 37%; 2013 YOA ultimate forecast 41%*

The level of gross premiums written, net of acquisition costs, has reduced compared to both the 2013 year of account at 12 months and compared to the business plan for the 2014 year of account. The main driver of this is the cessation of the travel binder on 1st August 2014, after writing for six months (2013 year of account: travel binder incepted 1st March 2013 through to 31st January 2014). As reported last year the under-performance of this binder compared to plan has had a marked impact on the results of the syndicate, due to the size of the binder relative to the overall portfolio. The binder was expected to return a gross loss ratio of below 80% based on historic analysis. Whilst it returned an acceptable loss ratio of 83% and 76% in the first two years of account, 2008 and 2009, for the next three year of accounts the forecast gross loss ratios show adverse returns of 93%, 90% and 88%. Other than for the 2008 year of account where all claims are now finalised the ratios quoted are the ultimate gross loss ratios, including IBNR through to finalisation. There has been a significant increase in travellers due to the unparalleled strength of the Australian dollar, particularly those of an older demographic, which has skewed results during this period, coupled with a run of worldwide weather events disrupting holiday plans. The 2012 year of account binder saw the introduction of a further internet sales brand (these brands have lower expected loss ratios than sales agents' brands). This was hoped to help stablise the loss ratio in the short term (2012 year of account did see a reduction down to 88%) and improve it overall in future years. However, a number of critical steps had to be taken with the coverholder to improve the immediate performance of the binder. These include tightening in wordings, pricing change on travel agency business, premium loading on ski related activities which have contributed to a number of larger claims in recent years, plus a weighted average price increase for all policy holders above a certain age. The 2013 year of account binder was hit by a series of larger claims, some of which are subject to reinsurance recoveries, and the gross loss ratio again exceeded 90% (current forecast is 93%). During 2014 negotiations on the future of the travel binder resulted in a discontinuation of the relationship with the producing cover-holder. The forecast gross loss ratio for the shortened travel binder in the 2014 year of account is 85%.

The impact of shortening the travel binder period has been to reduce forecast stamp gross written premiums for this class of business by £10m. Some cost savings are realised off the back of this, primarily in reduced levies from Lloyd's of London and reduced with-holding taxes payable to the Australian Tax Office. This level of reduced premium was not able to be immediately replaced with alternative sources of income. An accident scheme in the middle-east, new to the syndicate, was initiated with a broker partner, and the service companies continue to drive forward business initiatives to help secure appropriately priced risks.

The renewal date for the core Sportscover binders has been brought forward from mid-August to 1st July, giving a further six weeks of income in year one. The main third party sports and leisure binders incepted 31st December 2014 and will write throughout calendar year 2015.

Other sources of business include open market contingency business and business sourced through Lloyd's China, both written from 1st January, and the Canadian sports binder renewed on 1st February 2014.

The direct contingency book contributed £2.8m of gross premiums, net of acquisition costs (2013 year of account: £3.1m at 31st December 2013). In prior years we reported that large contract bonus losses had adversely impacted on gross loss ratios and steps had been taken to reduce the amount of business written in this category. The earned gross loss ratio as at 31st December 2014 is 145%, and the forecast ultimate gross loss ratio is 128%, which is significantly higher than the plan forecast of 75% due to the impact of a number of large losses being experienced. These mainly relate to part-cancellation of worldwide tours of high profile artistes, two of which were of a size to trigger reinsurance recoveries. The class underwriter left in November 2014 and a specific class underwriter is yet to be recruited.

Review of activities in the year *continued*

2014 year of account continued
The bloodstock class of business was not included in the 2014 year of account, having been put in to run-off in calendar year 2013.

The 2014 year of account gross premiums written, net of acquisition costs is 65% of the forecast ultimate position compared to 77% for the 2013 year of account at the same stage. As many of the expenses are front loaded and earned premiums are only 46% of ultimate premiums, a GAAP loss exists as at the year-end. The loss amount is also exacerbated due to the earned loss ratios on the contingency book as described above.

The forecast is for this year of account to break even. The reduction from the planned profit is a combination of reduced premiums, fixed costs of regulation and of compliance having to be absorbed by a reduced premium base, recalibration of the contingency and travel loss ratios to reflect incurred experience on these classes, and recalibration of the forecast public liability gross loss ratio from 55% to 60%. This latter class of business is at an immature stage of development, and the development of claims incurred will be closely monitored to assess the likely outcome of this claims ratio, which has seen volatility over recent years. As risks are still being attached to 2014 year of account, the underwriters are actively pursuing rate rises and walking away from unprofitable business to help improve the profitability of the liability book, both in Australia and Europe.

Future developments
The 2015 business plan has a reduced capacity of £32.0m and a forecast for stamp gross written premiums of £30.8m. Two key changes were made to the plan for the 2015 year of account when compared to the previous year of account. The first was the impact of not writing the third party travel binder, instead refocusing the travel class of business on the provision of cover to sportspersons when travelling to competitions. The travel class of business has a reduction of £20.7m in stamp gross written premiums, compared to the 2014 year of account plan. The second was a strategic decision taken by management to no longer write property risks as part of the sports and leisure package, instead just covering sports equipment. This is the progression of the strategy outlined last year to focus on more profitable segments and accounts. The property class of business has a reduction of £3.2m in stamp gross written premiums, compared to the 2014 year of account plan.

The core classes of business have increased premium targets to partly offset the reductions referred to above. This includes a forecast growth in liability of £2.5m and in personal accident of £6.1m, where Sportscover is seeking to grow this book with continued territorial expansion, primarily in to markets where Lloyd's has traditionally been underrepresented such as China, and controlled writing of identified accounts. Part of this growth will also come from a reduction in acquisition costs with acquisition costs as a percentage of gross premiums forecast to be 30% for the 2015 year of account, compared to 32% forecast for the 2014 year of account, excluding the travel binder. Following on from the poor performance of the cancellation and abandonment risk code in the 2014 year of account, risks written to this contingency risk code are being carefully selected in the 2015 year of account. In the absence of a dedicated class underwriter is probable that the premiums for the overall contingency class of business will be lower than plan.

On 18th November 2014, the parent company of the managing agent signed an agreement to sell 100% of the share capital of the company to the Hamilton Insurance Group. ('Hamilton'), conditional upon all regulatory approvals being obtained from Lloyd's of London and UK supervisors the Financial Conduct Authority and Prudential Regulation Authority. The Hamilton group of companies is owned by a Bermuda-based holding company and includes the property casualty reinsurer Hamilton Re domiciled in Bermuda and insurers domiciled in the United States that operate under the Hamilton USA brand. Hamilton, along with Wild Goose Holdings Pty Ltd, has provided the funds at Lloyd's for the 2015 year of account. At the date of signing the 2014 report and accounts the final stages of the regulatory approval process were still being undertaken.

With the 2015 business plan already being approved, Syndicate 3334 will continue underwriting as planned, with the core sports and leisure business driving the plan for this year of account. Hamilton management has announced that they will look to develop the business by adding suitable well regarded teams of underwriters.

Risk management

As an underwriting business, Syndicate 3334 is exposed to a variety of financial and non-financial risks. These risks, which form the basis of the risk management strategy adopted by SCU, are integral to the capital setting process that is undertaken to ensure that there is a high level of confidence that the obligations of the syndicate can be met over a 12 month time horizon and over the full lifecycle of the insurance liabilities. The Own Risk and Solvency Assessment undertaken in respect of Syndicate 3334, reflects the risk profile of the business as well as the business strategy. Risks are managed through the risk management framework in order to ensure that the risk profile of the business is fully considered and that the business is not exposed to risk over and above the agreed risk appetite. The risks impacting the business are grouped under various categories, each of which is the subject of a risk policy. These risk groupings are set out below:

Insurance risk

The underwriting profile of Syndicate 3334 is such that it is likely that claims will arise on the business underwritten. An expected level of claims in relation to attritional, large and catastrophe type losses has, therefore, been included in the business planning process.

Other precautionary measures, in the form of internal controls, are used to preserve the syndicate's performance by limiting the exposure to wider underwriting, claims and reserving risks, such as:

- an unexpected level of attritional losses
- inappropriate premium rating levels
- inadequate levels of reserves
- failure to deliver the agreed business plan
- inappropriate aggregation of exposure
- inappropriate design of the reinsurance programme or failure of the programme to adequately protect underlying risk.

SCU seeks to manage these risks within an agreed risk appetite. The framework of systems and controls is designed for the purpose of either reducing the likelihood of, or detecting, such risks occurring and to mitigate the impact on the overall business of the syndicate.

Operational risk

Operational risk spans all risk categories and control procedures are used to proactively address the risks associated with SCU's business processes, systems and other resources which might otherwise be detrimental to performance. Business continuity is considered key under this heading. SCU has developed an effective plan that provides for the syndicate to be operational within a 48 hour period in the event that its current offices are no longer available. The service companies, in Australia and the UK, similarly have developed written disaster recovery plans.

As a regulated business, SCU is fully aware of its regulatory obligations to the FCA, PRA, Lloyd's and overseas regulators. The procedures adopted by SCU in this regard rigorously monitor compliance with the regulatory standards and, through continuous assessment, highlight any developments that might impact the business.

Capital risk

Syndicate 3334 is supported by third party capital providers whose ongoing support has been crucial to the syndicate. The capital for the forthcoming 2015 year of account has been underwritten by a newly elected corporate member, SCI Capital Number 2 Ltd, and the funds at Lloyd are provided by Wild Goose Holdings Pty Ltd and Hamilton Re. Ltd.

Financial market risk

SCU will manage funds under its control to ensure that sufficient assets exist to meet its segmented liabilities. There is a conservative approach to investment income and, in the current climate, the investment strategy concentrates on capital preservation.

Liquidity risk

The liquidity of the syndicate is influenced by a number of factors that have the potential to arise from across the business. Management information is used to enable the effective monitoring of the liquidity risk framework in line with the agreed procedures and governance arrangements. Robust procedures are in place for the monitoring of cash flow and credit control. Claims activity is closely scrutinised and the movement of existing claims is reported at regular intervals. Underwriting figures are verified by independent actuarial review.

Risk management *continued*

Credit risk

Credit risk is inherent to the business conducted with brokers and reinsurers. The potential for credit risk losses arising from a counterparty failing to fulfil its contracted payment obligations is managed by strict control procedures. Aged debt in respect of the payment of premiums and reinsurance recoveries is closely monitored and actively managed accordingly. The SCU Security and Counterparty Executive approve the brokers, cover-holders and reinsurers with whom the syndicate may conduct its business.

There is no appetite to deal with counterparties who have not been approved or whose performance fails to adhere to the strict service standards which are monitored on a regular basis.

Emerging risk

In addition to monitoring the individual risk categories set out above, SCU has in place an emerging risks process to review risks that may impact upon the business in the future, and to ensure that any such risks are understood and mitigated where possible.

Investment managers and policy

Throughout 2014 any surplus cash held on behalf of Syndicate 3334 was generally invested in bank deposits and a mutual fund. Due to the relatively low level of funds available for investment under the control of the managing agent, no fund manager has as yet been appointed.

The overall objective is to target a return in line with LIBOR and remain 99.5% confident of avoiding an overall investment loss. The return for 2014 is consistent with SCU's risk appetite, albeit that the overall returns on Sterling and Euro funds have been diminished by the reduction in interest rates on offer. The return on dollar deposits arises primarily from Australian deposits, the base rate for which averaged 2. 5% in 2014 (2013: 2.75%). Surplus funds are held in a premium trust fund which attracts a return of up to 3.5%, helping maximise returns. Whilst the official interest rate has fallen to 2.5% by 31st December 2013, a rate which held steady throughout 2014, banks are still offering returns in excess of this rate to attract investors. A substantial amount of Australian dollar deposits are held within the Lloyd's Australian Trust Fund; this generates both interest and capital returns (capital losses as well as gains are therefore experienced). The overall return from this fund was approximately 4.6% in 2013 (2013: 3.3%).

Investment performance

The investment return for the year and the average funds available for investment were as follows:

	2014	2013
Average amount of syndicate funds available for investment during the year ("average funds")	£17.9 million	£17.3 million
Split:		
Sterling/Euros	£1.3 million	£1.7 million
Dollars (primarily Australian dollars)	£16.6 million	£15.6 million
Investment return	£524,556	£550,581
Calendar year investment yield:	*%*	*%*
Sterling/Euros	1.1	0.0
Dollars	3.6	3.7

Post balance sheet events

Post balance sheet events are discussed in Note 15 to the accounts.

Statement as to disclosure of information to auditors

The directors of the managing agent at the date of this report have individually taken all the necessary steps to make themselves aware, as directors, of any relevant audit information and to establish that the syndicate auditors are aware of that information.

As far as the directors are aware, there is no relevant audit information of which the syndicate auditors are unaware.

Report of the Managing Agent *continued*

Auditor
Mazars LLP has signified its willingness to continue in office as the independent auditor to the syndicate.

Annual general meeting of the syndicate members
In accordance with the provisions of the 2008 Regulations, it is not intended to hold an annual general meeting with the members of Syndicate 3334, unless objections to this proposal or to the deemed reappointment of the auditor are received from the syndicate members. Any such objection should be made in writing to the registered office of the Managing Agent within 21 days of receipt of this statement.

Matthew Riley
Chief Executive Officer

Approved by the board of Sportscover Underwriting Ltd on 17th March 2015

Report of the Independent Auditor
to the Members of Syndicate 3334

We have audited the syndicate annual accounts of Syndicate 3334 for the year ended 31st December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the managing agent and auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 3, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors. This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinion we have formed.

Scope of the audit of the syndicate annual accounts

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the state of affairs of Syndicate 3334 as at 31st December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on the other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Report of the Independent Auditor
to the Members of Syndicate 3334
continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you if, in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Raymond Tidbury (Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London E1W 1DD

17th March 2015

Profit and Loss Account

for the year ended 31st December 2014

Technical account – general business	Notes	*2014* £'000	*2014* £'000	*2013* £'000	*2013* £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	56,153		87,643	
Outward reinsurance premiums		(3,905)		(5,649)	
Change in the provision for unearned premiums					
Gross amount		9,637		(3,188)	
Reinsurers' share		(276)		470	
			61,609		79,276
Allocated investment return, transferred from the non-technical account			524		550
Claims incurred, net of reinsurance					
Claims paid – Gross amount		(39,537)		(43,583)	
– Reinsurers' share		2,703		1,834	
		(36,834)		(41,749)	
Change in the provision for claims					
Gross amount		(4,800)		(3,209)	
Reinsurers' share		(424)		1,061	
		(5,224)		(2,148)	
Claims incurred, net of reinsurance			(42,058)		(43,897)
Net operating expenses	3		(30,814)		(42,470)
Balance on the technical account for general business			(10,739)		(6,541)

All items relate to continuing operations.

Profit and Loss Account
for the year ended 31st December 2014 continued

Non-technical account	Notes	*2014* *£'000*	*2013* *£'000*
Balance on the general business technical account		**(10,739)**	(6,541)
Investment income	6	**524**	550
Allocated investment return transferred to the general business technical account		**(524)**	(550)
Loss for the financial year	9	**(10,739)**	(6,541)

There are no recognised gains or losses in the accounting period other than those dealt within the technical and non-technical accounts.

Balance Sheet

as at 31st December 2014

	Notes	*2014* £'000	*2014* £'000	*2013* £'000	*2013* £'000
Assets					
Investments					
Other financial investments	7		3,518		2,490
Reinsurers' share of technical provisions					
Provision for unearned premiums		2,548		3,020	
Claims outstanding		1,155		1,586	
			3,703		4,606
Debtors					
Debtors arising out of direct insurance operations	8	15,106		20,233	
Debtors arising out of reinsurance operations		846		–	
Other debtors		709		594	
			16,661		20,827
Other assets					
Cash at bank and in hand		2,678		6,498	
Overseas deposits		9,784		11,463	
			12,462		17,961
Prepayments and accrued income					
Deferred acquisition costs		5,846		11,408	
Other		713		604	
			6,559		12,012
Total assets			42,903		57,896

Balance Sheet *continued*
as at 31st December 2014

	Notes	*2014* £'000	*2014* £'000	*2013* £'000	*2013* £'000
Liabilities					
Capital and reserves					
Members' balances	9		(13,881)		(7,497)
Technical provisions					
Provision for unearned premiums		15,294		27,177	
Claims outstanding		32,218		28,046	
			47,512		55,223
Creditors					
Creditors arising out of direct insurance operations	10	6,019		6,891	
Creditors arising out of reinsurance operations	10	608		922	
Other creditors including taxation and social security		1,462		1,199	
			8,089		9,012
Accruals and deferred income			1,183		1,158
Total liabilities			42,903		57,896

The syndicate annual accounts were approved by the Board of Sportscover Underwriting Ltd on 17th March 2015 and were signed on its behalf by:

Belinda Taylor
Director

Cash Flow Statement

for the year ended 31st December 2014

	Notes	*2014* *£'000*	*2013* *£'000*
Reconciliation of loss to net cash outflow from operating activities			
Loss for the financial year		(10,739)	(6,541)
Realised/unrealised gains and losses on cash & investments, including foreign exchange		320	2,716
Decrease/(increase) in insurance debtors, prepayments and accrued income		9,619	(1,948)
(Decrease)/increase in net technical provisions		(6,808)	1,160
(Decrease)/increase in creditors		(898)	3,212
Net cash outflow from operating activities		(8,506)	(1,401)

	Notes	2014 £'000	2013 £'000
Net cash outflow from operating activities		(8,506)	(1,401)
Returns on investments and servicing of finance:			
Distribution loss from members		4,375	10,467
Financing:			
Members' agents' fees		(20)	(21)
	11	(4,151)	9,045
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings	11	(3,773)	5,680
Net portfolio investment	11	(378)	3,365
Net investment of cash flows		(4,151)	9,045

Notes to the Accounts

1. Basis of preparation and accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 as revised in December 2006 ("the ABI SORP"), except as follows. Exchange gains and losses have been included in the technical account as they are considered to arise only in respect of technical account transactions. The ABI SORP recommends that they should be included in the non-technical account.

Accounting policies

(a) *Basis of accounting*

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) *Premiums written*

Premiums written comprise premiums on contracts incepted during the financial year. They also include estimates for pipeline premiums, representing amounts due to the syndicate not yet notified.

Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

(ii) *Unearned premiums*

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

(iii) *Reinsurance premium ceded*

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(iv) *Claims incurred*

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end.

1. Accounting policies *continued*

(v) *Claims provisions and related recoveries*

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the syndicate's staff and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience for the relevant classes of business the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs.

Reinsurers' shares of gross claims are based on gross claims paid and calculated amounts of gross outstanding claims and projections for gross IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business and the claims experience for the year and the current security rating of the reinsurance companies involved. The syndicate uses a number of statistical techniques to assist in making these estimates.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(b) *Unexpired risks provision*

A provision for unexpired risks is made where claims and related expenses likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together. No account is taken of any future investment return.

Notes to the Accounts
continued

1. Accounting policies *continued*

(c) *Acquisition costs*
Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(d) *Foreign currencies*
Transactions in US dollars, Canadian dollars, Australian dollars, Euros and Japanese Yen are translated at the average rates of exchange for the period.

Monetary assets and liabilities are translated into Sterling at the rates of exchange at the balance sheet dates unless contracts to sell currency for Sterling have been entered into prior to the year end, in which case the contracted rates have been used. Non-monetary assets and liabilities at the balance sheet date, primarily deferred acquisition costs and unearned premiums, are translated at the rate of exchange ruling when the insurance contract was entered into (or an approximate average rate). Differences arising on the translation of foreign currency amounts are included in the technical account under “net operating expenses”.

Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Amounts transferred to members are translated at the rate of exchange ruling at the date of payment except for the payment of closed year profits which are translated at the rate of exchange ruling at the previous balance sheet date.

(e) *Investments*
Investments are stated at current value at the balance sheet date. For this purpose listed investments and overseas deposits are stated at mid-market value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

(f) *Investment return*
Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

1. **Accounting policies** *continued*

(g) *Taxation*

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members on underwriting results.

(h) *Pension costs*

SCU operates a defined contribution pension scheme and its recharges to the syndicate in respect of staff costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

Notes to the Accounts
continued

2. Particulars of business written

Type of business
An analysis of the technical account balance before investment return is set out below:

2014	*Gross premiums written £'000*	*Gross premiums earned £'000*	*Gross claims incurred £'000*	*Gross operating expenses £'000*	*Re-insurance balance £'000*	*Total £'000*
Direct insurance:						
Accident and health	30,413	38,567	(20,718)	(20,826)	(98)	(3,075)
Fire and other damage to property	7,278	7,922	(5,887)	(2,802)	(641}	(1,408)
Third party liability	14,642	14,755	(13,898)	(5,795)	(1,127)	(6,065)
Pecuniary loss	3,820	4,546	(3,834)	(1,391)	(36)	(715)
	56,153	65,790	(44,337)	(30,814)	(1,902)	(11,263)

2013	*Gross premiums written £'000*	*Gross premiums earned £'000*	*Gross claims incurred £'000*	*Gross operating expenses £'000*	*Re-insurance balance £'000*	*Total £'000*
Direct insurance:						
Accident and health	58,811	57,095	(27,616)	(32,222)	234	(2,509)
Fire and other damage to property	8,327	8,141	(6,318)	(3,035)	(476)	(1,688)
Third party liability	15,238	14,912	(9,195)	(5,936)	(1,932)	(2,151)
Pecuniary loss	5,267	4,307	(3,663)	(1,277)	(110)	(743)
	87,643	84,455	(46,792)	(42,470)	(2,284)	(7,091)

Geographical analysis by origin

	Gross premiums written		*Loss*		*Net technical provisions*	
	2014 £'000	*2013 £'000*	***2014 £'000***	*2013 £'000*	***2014 £'000***	*2013 £'000*
UK						
Direct/reinsurance accepted	56,153	87,643	(11,263)	(7,091)	(37,963)	(39,209)

2. Particulars of business written *continued*

Geographical analysis by destination

	2014 *£'000*	*2013* *£'000*
UK	10,348	9,746
EU	2,677	3,092
Other European	492	2,173
North America	2,739	4,431
Australasia	39,689	67,700
Other	208	501
	56,153	87,643

3. Net operating expenses

	2014 *£'000*	*2013* *£'000*
Acquisition costs	22,698	38,150
Change in deferred acquisition costs	4,613	(1,001)
Administrative expenses	4,875	5,307
(Profit)/loss on exchange	(1,372)	14
	30,814	42,470

Administrative expenses include:

	2014 *£'000*	*2013* *£'000*
Auditor's remuneration		
Audit services	102	121
Other services	2	4
Standard personal expenses	727	786

Total commissions for direct insurance accounted for in the year amounted to £22,008,000 *(2013: £37,089,000).*

4. Staff numbers and costs

a) All staff are employed by the managing agency or by the service companies Sportscover Australia Pty Ltd and Sportscover Europe Ltd. The following amounts were recharged to the syndicate in respect of salary costs:

	2014 *£'000*	*2013* *£'000*
Salary costs	1,129	1,660
Pensions	84	120
	1,213	1,780

Notes to the Accounts
continued

4. Staff numbers and costs *continued*

b) The average numbers of employees employed by the managing agency or service companies but working for the syndicate during the year was as follows:

	2014 *No.*	*2013* *No.*
Administration, compliance and finance	8	6
Underwriting	4	6
	12	12

5. Directors' emoluments

a) Emoluments of the directors of Sportscover Underwriting Ltd.

SCU charged the syndicate the following amounts in respect of emoluments paid to its directors including the Active Underwriter of the syndicate:

	2014 *£'000*	*2013* *£'000*
Emoluments	497	557

b) Emoluments of the Active Underwriter

Murray Anderson has been sole Active Underwriter for the syndicate since 28th February 2013.

The emoluments of the Active Underwriter as charged to the syndicate are shown below:

	2014 *£'000*	*2013* *£'000*
Emoluments	78	78

Notes to the Accounts
continued

6. Investment income

	2014 *£'000*	*2013* *£'000*
Income from investments	489	857
Gains/(losses) on the realisation of investments	35	(307)
	524	550

7. Financial investments

	2014		*2013*	
	Cost *£'000*	*Market value* *£'000*	*Cost* *£'000*	*Market value* *£'000*
Shares and other variable yield securities	3,518	3,518	2,490	2,490
	3,518	3,518	2,490	2,490

The breakdown of the cost and market value of investments by currency is set out below:

	2014			
	£ *'000*	*US$* *'000*	*C$* *'000*	*€* *'000*
Shares and other variable yield securities	1	1,420	4,262	325
	1	1,420	4,262	325

8. Debtors arising out of direct insurance operations

	2014 *£'000*	*2013* *£'000*
Amounts falling due within one year:		
Intermediaries	15,106	20,233

Notes to the Accounts
continued

9. Reconciliation of members' balances

	2014	*2013*
	£'000	*£'000*
Members' balances brought forward at 1st January	(7,497)	(11,402)
Loss for the financial year	(10,739)	(6,541)
Members' agents' fees	(20)	(21)
Transfers from members' personal reserves funds	4,375	10,467
Members' balances carried forward at 31st December	(13,881)	(7,497)

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

10. Creditors arising out of direct insurance and reinsurance operations

	2014	*2013*
	£'000	*£'000*
Amounts falling due within one year:		
Direct insurance operations	6,019	6,891
Reinsurance operations	608	922
	6,627	7,813

11. Movement in opening and closing portfolio investments net of financing

	2014	*2013*
	£'000	*£'000*
Net cash (outflow)/inflow for the year	(3,773)	5,680
Cash flow – portfolio investments	(378)	3,365
Movement arising from cash flows	(4,151)	9,045
Changes in market value and exchange rates	(320)	(2,716)
Total movement in portfolio investments net of financing	(4,471)	16,329
Balance brought forward at 1st January	20,451	14,122
Balance carried forward at 31st December	15,980	20,451

	At 1st January 2014	*Cash flow*	*Changes to market value & currencies*	*At 31st December 2014*
	£'000	*£'000*	*£'000*	*£'000*
Cash at bank and in hand	6,498	(3,773)	(47)	2,678
Shares and other variable yield securities	2,490	1,024	4	3,518
Overseas deposits	11,463	(1,402)	(277)	9,784
	20,451	(4,151)	(320)	15,980

12. Net cash inflow on portfolio investments

	2014 *£'000*	*2013* *£'000*
Shares and other variable yield securities	1,024	1,320
	1,024	1,320

13. Borrowings

During the period to 31st December 2014, the syndicate negotiated unsecured overdraft facilities with Barclays Bank plc, as a buffer against any timing differences between premium receipts and claims and other expense payments being made. This facility was available for use against Sterling and Australian dollar accounts. The balance outstanding at the balance sheet date was £nil (31st December 2013: £nil).

14. Related parties

Total fees payable to SCU in respect of services provided to the syndicate for the 2014 year of account amounted to £343,000 (2013: £320,000). From the 2010 year of account onwards SCU is entitled to a15% profit commission on the closing profits. As the 2010 year of account closed at a loss there is no profit commission payable to SCU from this year of account and a deficit is carried forward to future years of £1,558,000. The 2011 year of account also closed at a loss and a further deficit of £646,000 is carried forward to future years.

SCU recharged £80,000 of administrative expenses to the syndicate in the year ended 31st December 2014 (2013: £88,000).

Wild Goose Holdings Pty Ltd

Mr Peter Nash is the Chairman and major shareholder in Wild Goose Holdings Pty Ltd, an Australian company, which is the ultimate parent entity of:

- SCI Capital Ltd, the sole corporate member to the 2006 year account and participating member to all other years of account;
- Sportscover Europe Ltd (SCE), cover-holder of the syndicate in all year of account;
- Sportscover Australia Pty Ltd (SCA), cover-holder of the syndicate in all year of account;
- Kinetic Insurance Brokers Ltd, placing broker for most of the syndicate's cover-holder business;
- Active Underwriting Specialists Ltd, cover-holder of the syndicate from the 2007 year of account onwards;
- Venue Rating Agency Pty Ltd (VRA), risk assessment service provider;
- SCI Capital Number 2 Ltd, the sole corporate member to the 2015 year of account.

In addition, Leisureinsure Pty Ltd, a new cover-holder from the 2013 year of account, is 50% owned by Wild Goose Holdings Pty Ltd. There is an additional cover-holder within the group, which is registered to accept business, Blue Sky Insurance Pty Ltd. No premiums have gone through this entity to date.

Mr Peter Nash is also a director of SCI Capital Ltd, Sportscover Europe Ltd, Sportscover Australia Pty Ltd, Venue Rating Agency Pty Ltd and SCI Capital Number 2 Ltd.

Mr Christopher Nash is also director and shareholder in Wild Goose Holdings Pty Ltd and a director of SCI Capital Ltd, Sportscover Europe Ltd, Sportscover Australia Pty Ltd and Active Underwriting Specialists Ltd.

Mr Matthew Riley is also a director of Wild Goose Holdings Pty Ltd and a director of SCI Capital Ltd, Sportscover Europe Ltd, Active Underwriting Specialists Ltd, Kinetic Insurance Brokers Ltd and SCI Capital Number 2 Ltd.

Notes to the Accounts

continued

14. Related parties *continued*

Mr Murray Anderson is also a director and shareholder in Wild Goose Holdings Pty Ltd.

Ms Belinda Taylor is also a director in Wild Goose Holdings Pty Ltd, Sportscover Europe Ltd, and Active Underwriting Specialists Ltd.

Mr David Flett is also a director in SCI Capital Ltd.

Of the total acquisition costs of £22,008,000 charged in 2014, the following commission and brokerage amounts were charged to Syndicate 3334 by the placing broker and cover-holder companies within the Wild Goose Holdings group, all converted to GBP at prevailing exchange rates:

2012 year of account	*£38,000*
2013 year of account	*£3,134,000*
2014 year of account	*£2,466,000*

Additionally, recharges to Syndicate 3334 of salary and administrative expenses incurred by SCA and SCE on behalf of Syndicate 3334 amounted to £751,000 (2013: £1,655,000). The amounts recharged from SCA include the costs of SCU directors based in Australia who are remunerated via the SCA payroll, plus the internal actuarial function, IT development team and the marketing department. The recharges from SCE include the Syndicate's contingency underwriter and assistant who were remunerated via the SCE payroll until March 2014, and were then charged direct from SCU to Syndicate 3334 from April 2014 until December 2014. In the year ended 31st December 2013 the recharges from SCE also included the Syndicate's bloodstock underwriter and assistant (no longer employed following the class of business being placed in to run-off).

The salary costs plus associated administration costs directly relating to underwriting operations, which are treated as other acquisition costs in the syndicate's technical account results notified to The Corporation of Lloyd's, account for £420,000 (2013: £816,000) of total charges.

VRA charged £186,000 (2013: £245,000) for risk assessment surveys undertaken on instruction from SCA; these costs are included in other acquisition costs in the syndicate's technical account.

Hollard Insurance Company Pty Ltd (Hollard) is an 18.3% shareholder in Wild Goose Holdings Pty Ltd. Hollard has in the past transacted business with Syndicate 3334 and may do so in the future. Any such business was, and will in the future be, conducted on an arm's length commercial basis.

Other than directorship fees, salaries and other related remuneration and any potential future investment earnings or growth in capital value arising from shareholdings in these or related companies, no personal benefit is derived by either Mr Peter Nash, Mr Christopher Nash, Mr Matthew Riley, Mr Murray Anderson, Ms B Taylor or Mr D Flett from these arrangements.

Capital support for Syndicate 3334

Mr Peter Nash, Mr Christopher Nash and Mr Matthew Riley are directors of SCI Capital Ltd which participates on Syndicate 3334 for the 2006 to 2014 years of account. Other than directorship fees, salaries and other related remuneration and any potential future investment earnings or growth in capital value arising from shareholdings in the Lloyd's Corporate Member, no personal benefit is derived by the individuals concerned from these arrangements.

Mr Peter Nash and Mr Matthew Riley are directors of SCI Capital Number 2 Ltd which will participate on Syndicate 3334 for the 2015 year of account.

There are no other transactions or arrangements to be disclosed.

15. Post balance sheet events

The 2012 year of account was placed in to run-off as at 31st December 2014 and not closed at 36 months. A cash call of £4,500,000 has been made which will be funded from members' personal reserves funds on 16th June 2015.

16. Funds at Lloyd's

In case syndicate assets prove insufficient to meet members' underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL).

The level of FAL Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. FAL is not hypothecated to any specific syndicate participation by a member. Therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.