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Sportscover Syndicate 3334

Syndicate Underwriting Year Accounts

For the 2012 Run-Off Year of Account

In run-off as at 31st December 2014

Sportscover Syndicate 3334
2012 Run-Off Year of Account

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Registered in England number 06684157

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Managing Agent's Report– 2012 run-off year of account

The managing agent presents its report on the 2012 year of account of Syndicate 3334 as placed in to run-off as at 31st December.

Statement of Managing Agent's responsibilities

The Lloyd's Syndicate Accounting Byelaw (No 8 of 2005) requires the managing agent to prepare run-off underwriting year accounts at 31st December in respect of any syndicate year that is in run-off.

In preparing the run-off underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of accounts, be equitable as between them, having regard to the nature and amount of the liabilities reinsured.

- take into account all income and charges relating to a run-off account without regard to the date of receipt or payment;

- make judgements and estimates that are reasonable and prudent; and

- state whether applicable accounting standards have been followed, subject to any material differences disclosed and explained in these underwriting year accounts.

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 underwriting year accounts comply with the Lloyd's Byelaw. 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.

Overview of the business

Introduction and background

Syndicate 3334 is a specialist insurer of sports and leisure risks covering, for the 2012 year of account, personal accident, public liability, property, directors and officers, contingency, bloodstock and travel insurance risks. It is the only dedicated sports and leisure syndicate in the Lloyd's market, with a primary focus on amateur sports risks and some carefully selected professional and semi-professional sporting activities and targeted leisure risks. 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.

Syndicate 3334 was established during 2006 and commenced underwriting with effect from 14th August 2006, with an allocated capacity of £8.0 million. This was increased to £15 million for the 2007 and 2008 years of account. Capacity for the 2009 year of account was increased to £20 million to accommodate a new line of business (travel) and further increased to £25 million for the 2010 year of account to allow for organic growth of the account and the addition of a contingency book of business. Capacity for the 2011 year of account increased further to £35 million and saw the introduction of a bloodstock line.

Capacity for the 2012 year of account was increased to £45.0 million (with a plan stamp gross premium written level of £42.5 million) to allow for growth in the core and open market business streams.

Managing Agent's Report – 2012 run-off year of account *continued*

Overview of the business *continued*

Year of account at 36 months

On 19th February 2015 the Board of Directors voted 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 date of closure of the year of account.

Sources of business by class and geographic reach for the 2012 pure year of account(gross written premium)

Class of business	2012 Actual %	2012 Plan %	Geographic reach	2012 Actual %	2012 Plan %
Liability	20	18	UK	12	15
Property	9	6	EU	4	4
Accident	7	8	Other European	2	3
Contingency	6	10	Australasia	77	67
Travel	56	47	North America	4	7
Bloodstock	2	11	Other	1	4
Total	100	100		100	100

The income from travel, which is the largest class at 56% of total gross written premiums, came primarily from a third party binder which was introduced in the second half of the calendar year 2009. This is limited to Australian and New Zealand travelers only. The critical mass achieved by this addition has allowed the syndicate to provide a more complete suite of products to its existing client base. Over the lifecycle of the 2012 year of account binder the Australian dollar was very strong encouraging travel from Australia. This resulted in the binder reaching premium targets quicker than forecast, so the binder period was cut off at ten months in order to maintain a balanced overall syndicate portfolio.

The majority of the liability, property and accident business written by the syndicate comes from binding authorities granted to three underwriting agencies, namely Sportscover Australia Pty Ltd, Sportscover Europe Ltd and Active Underwriting Specialists Ltd, within the same group as one of the major capital providers to the syndicate. These binding authorities are for a 12 month period and commenced in August 2012. Consequently the individual risks attaching to the binding authorities are allocated to the same year of account as the binding authority to which they attach. These underwriting agencies operate as service companies to the syndicate and are under the direct day to day control of the Active Underwriters (joint active underwriters operated for the Syndicate for the majority of the 2012 year of account underwriting cycle, Murray Anderson based in London and Christopher Nash based in Australia).

For the 2012 year of account these binding authorities were supplemented by carefully selected third party binders and by direct underwriting business written in the open market.

Open market contingency business has been written since the employment in June 2010 of a dedicated contingency underwriter. The early periods of writing this business saw some larger claims experienced in the contract bonus sector and also following a change in class underwriter for this year of account a reconfiguration of the contingency portfolio occurred, resulting in gross premiums being lower than the prior year of account by 1% and to plan by 42%.

Managing Agent's Report – 2012 run-off year of account *continued*

Overview of the business *continued*

In February 2011 an experienced bloodstock underwriter was recruited and began actively writing business from May 2011. The market conditions have been soft and resulted in the planned income level for the full twelve month period in this year of account not being achieved, gross premiums being 23% higher than the short period in 2011 year of account but 77% below plan. The capacity shortfall was taken up primarily within the travel and public liability risk codes.

The syndicate received business from over 20 countries. The major markets are Australia, the UK, Ireland, Norway, USA, Canada, and China.

The trading conditions of the key markets can be summarised as follows:

Australia
The Australian market has been extremely competitive over the life cycle of the 2012 underwriting year. Nevertheless the Australian service company was able to grow business by 13% compared to the previous underwriting year of account, business secured within its established rating structure on a sport by sport basis. As set out above the income from the travel book of business has exceeded expectations due primarily to the strength of the Australian dollar encouraging travel from Australia. This has led to an increase in the Australasian business as a whole compared to original plan.

UK and Europe
As for Australia the syndicate faced strong competition in these territories. As a result of the competition, the syndicate has created points of difference to secure and retain business. This has been done through long-term arrangements, low-level sponsorships and risk management services to clients. The overall UK business came in under plan. The gross premiums of the UK service companies remained at a consistent level when compared to the previous underwriting year of account, rather than exhibiting growth. Gross premiums however attaching to the key third party binders grew by 21%. Business (sports and leisure) in Ireland demonstrated a similarly consistent pattern to the prior year of account and was the main source of European business.

North America
Most of the premiums written in the US originate from the contingency and bloodstock open market placements, the majority being written as surplus lines. The bloodstock business doubled in size, being the first full year of writing premiums to this class of business and delivered a favourable result at gross loss ratio on stamp gross written premiums of 39% (business plan: 85%). The contingency business decreased by 10% with focus being on more profitable segments of this class, resulting in a lower gross loss ratio of 72% compared to 115% in the 2011 year of plan (albeit higher than the 2012 year of account plan gross loss ratio of 60%). Within the North America business is a third party binder written through a well-established Canadian managing general agent. The Canadian market is a highly competitive market and the portfolio is heavily weighted towards liability for the 2012 year of account.

Other
This includes the key market of China, where Syndicate 3334 writes via the Lloyd's China platform. Whilst the planned writing of direct business did not materialise, growth of 31% was achieved through the reinsurance licence, with the contingency class of business doubling in size. China still has the potential to become a major source of business to Sportscover because of the burgeoning sports market and the potential for growth that this provides. There are particular operational challenges to use of the direct licence, specifically that a partner must be sought to share a portion of the risk. Sportscover continues to work towards finding the right partner and in the meantime will continue to make use of Lloyd's reinsurance licence. Although the plan envisaged growth into other newer territories, such as Africa and Asia, this was slower than anticipated, and the emphasis of the year of account remained on underwriting in core territories.

Review of the 2012 run-off year of account results

Year of account position
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 GAAP 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.

Managing Agent's Report – 2012 run-off year of account *continued*

Review of the 2012 run-off year of account results ***continued***

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*

Stamp gross premiums 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. Expenses will reduce if the contingent tax assets are realised.

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.

Risk code analysis
An analysis of gross premiums written, net of acquisition costs and reinsurance premiums and the resulting net claims ratios to ultimate by risk code is set out below. This is for the 2012 pure year of account:

Risk code	Gross premiums written, net of acquisition costs (£m)	Claims ratio, net (based on period end exchange rates) %	Plan claims ratio, net (based on plan exchange rates) %
Public liability	8.3	97.5	60.7
Property	2.9	151.3	99.1
Personal accident	3.8	89.8	71.6
Directors & officers	0.1	19.7	60.7
Travel	22.1	88.7	77.4
Contingency	3.0	81.5	68.1
Bloodstock	1.3	100.9	84.7
Total, all risks	41.5	94.8	74.5

Review of the 2012 run-off year of account results *continued*

In 2012 we reported that the Syndicate was facing 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 liability loss ratio for the 2012 pure year of account of 97.5% compared to the business plan ratio of 60.7%. 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. However it should be noted that there is an individual large claim within the Australian claims environment, which has been reserved at A$1.8m (£0.9m), pending further investigation. This claim relates to a serious spinal injury and is being investigated to determine liability of insured, if any, and prognosis of long term injury. The incurred loss ratio for the overall liability book is 47%, which includes this large claim. The IBNR reserves are currently estimated at £3.8m.

The property book for the 2012 YOA was not significantly impacted by any catastrophe events. There was around £0.3m of claims from Cyclone Oswald in January 2013 and £0.3m of claims arising from UK adverse weather events in February 2014. The largest claim for this year of account arose from a fire incident in Australia triggering a reinsurance recovery, where a golf club suffered serious fire damage (net estimated cost A$1.0m, or £0.5m). There are outstanding claims of £0.8m requiring finalisation as at 31 December 2014.

The ultimate personal accident ratio compared to plan worsened as a result mainly of claims from Norwegian risks. This included the single largest personal accident contract within the European book experiencing a loss ratio of 100% (prior year of account: 123%) off the back of significantly higher volume of claims than in prior years – the impact of this was first seen in 2012. This came too late in the insurance cycle to be able to impact the pricing of the 2011 year of account renewal but allowed time for the underwriters to be able to renegotiate the 2012 year of account renewal to a slightly more favourable ratio. The risk is no longer written by Syndicate 3334. Reinsurance recoveries have also ensued from a number of parachuting deaths and injuries covered by a Norwegian risk.

The ultimate claims ratio for the risk code of directors & officers liability was 19.7% comparing favourably to plan ratios of 60.7%.

Both contingency and bloodstock loss ratios exceeded expectations. The adverse performance on the contingency book in the 2011 year of account was improved by removing some business in the 2012 year of account relating to contract bonuses. However the 2012 year of account did experience net losses of US$0.5m arising from Hurricane Sandy and one reinsurance recovery event relating to the cancellation of a tour by a leading global artiste. The bloodstock net loss ratio has been influenced by the low level of premiums written in the soft market.

The travel binder experienced a number of larger losses during this period and a volume increase resulting in an ultimate loss ratio of 88.7% compared to plan of 77.4%.

Prior years of account

There has been only a marginal movement of £0.3m on Australian claims reserves. Within this movement there were some posit ive reserve releases on cases settled in the syndicate's favour. This confirms the robustness of the new basis for establishing reserves under the claims strategy that has been adopted in Australia following identification last year of the issues within the liability environment.

Managing Agent's Report – 2012 run-off year of account *continued*

Review of the 2012 run-off year of account results *continued*

Prior years of account continued
As referred to above the emphasis last year was on interrogating and understanding the Australian claims trends. The movements in the closed years attaching to the 2011 year of account have largely stemmed from UK liability awards, and to a lesser extent, Canadian liability awards. 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. It transpired across the calendar year 2013 that the closing case reserves for the UK liability book were insufficient. The signing actuaries have agreed with our own internal actuarial analysis that the tail on this book now needs to be reserved for using a lengthened pattern. Thus the 2010 year of account and prior years reserves have been recalibrated where outstanding claims of note still exist.

The recalibration of the UK liability reserves in the closed years also impacts on the pure 2011 year of account loss ratio. The UK book has a higher frequency of claims than the Australian book but a lower average settlement value. Within the back year movements are a number of cases lost at trial, where a favourable determination was expected. In the pre Jackson reform environment the loss of such cases has resulted in typically small average payouts to the claimant but disproportionate payments to third party legal advisers. It is expected that the Jackson reforms will bring significant savings on newer claims.

Gross IBNR reserves have been estimated at £5.5m across all closed years of account; which relates almost exclusively to the liability book where the tail of claims is expected to run for several more years. The total IBNR reserves for the 2012 pure year of account are £4.2m, of which £3.8m relates to the liability book. The remainder relates to provisions for potential uplift to estimates on outstanding claims in the personal accident, property and travel books, should the outstanding reserves be insufficient (IBNER).

Future developments of the syndicate

Capacity for the 2013 year of account is £42.7 million at both capacity and plan stamp gross premium written levels. 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.

Capacity for the 2014 year of account is £45.7m at both capacity and plan stamp gross premium written levels. 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.

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 2014 year of account. The first was the impact of not writing the third party travel binder which has been written by Syndicate 3334 since 2008 year of account, instead refocusing the travel class of business on the provision of cover to sportspersons when travelling to competitions. 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.

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.

Historical summary of results

Syndicate 3334 commenced operations in August 2006. Consequently, the 2012 year of account is the seventh year of account to reach the 36 month mark. The result for the 2012 run-off year of account is compared to the results for the 2011, 2010, 2009, 2008, 2007 and 2006 years of account at close as below:

Year of account, including run-off years from 2007	2006	2007	2008	2009	2010	2011	2012
Syndicate Allocated Capacity £'000	8,000	15,000	15,000	20,000	25,000	35,000	44,929
Number of Underwriting Members	1	71	193	196	200	154	103
Aggregate Net Premiums £'000	9,517	14,517	27,556	35,370	45,291	59,605	73,514
Results for an illustrative share of £10,000							
Gross premiums	12,494	10,451	19,589	18,67	19,063	18,254	17,508
Net premiums	11,896	9,678	18,371	17,685	18,117	17,030	16,362
Reinsurance to close from an earlier account							
Net claims paid	-3,898	-3,362	-6,388	-7,624	-8,935	-8,457	-8,183
Reinsurance to close	-2,302	-1,726	-3,236	-3,487	-5,194	3,865	-4,340
* Amount retained to meet net outstanding liabilities							
Net operating expenses (excluding personal expenses)	-4,196	-5,093	-11,128	--9,814	-10,917	-9,629	-8,870
						–	
Balance on technical account before investment return and illustrative personal expenses	1,500	725	-655	-814	-4,140	-1,211	-2,021
Net investment return	143	79	164	264	191	154	126
Profit before illustrative personal expenses							
Illustrative personal expenses:	1,643	804	-491	-549	-3,949	-1,057	-1,896
Managing agent's fee	150	150	150	150	75	75	75
Profit commission	–	–	–	–	–	–	–
Other personal expenses	269	285	180	130	130	99	75
	419	435	330	280	205	174	150
Profit/loss after illustrative managing agent's fee and profit commission and illustrative personal expenses	1,224	369	-821	-829	-4,154	-1,231	-2,046
Capacity utilised	87.97%	63.05%	100.98%	99.46%	98.58%	100.15%	100.57%
Net capacity utilised	82.00%	55.32%	88.79%	89.57%	89.12%	87.92%	91.56%
Balance on technical account as % of gross premiums	12.01%	6.94%	-3.34%	-4.36%	-21.72%	-6.63%	-11.55%

Managing Agent’s Report – 2012 run-off year of account *continued*

Investment performance

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

	2012
Average amount of syndicate funds available for investment during the period (“average funds”)	£5.7 million
Split:	
Sterling/Euros	£0.4 million
Dollars (primarily Australian dollars)	£5.3 million
Investment return	£565,000
Investment yield:	*%*
Sterling/Euros	0.2
Australian dollars	3.3

Post balance sheet events

Post balance sheet events are discussed in Note 17 to the accounts.

Approved by the board of Sportscover Underwriting Ltd on 24th March 2015.

Peter Nash
Chairman

Independent auditor's report to the members of Syndicate 3334 on the 2012 run-off year of account

We have audited the syndicate underwriting year accounts for the 2012 run-off year of account of Syndicate 3334 for the three years ended 31 December 2014 which comprise the Profit and Loss account, the Balance Sheet, the Cash Flow Statement, the related notes 1 to 17 and the Statement of Managing Agent's Responsibilities. 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 the 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 the syndicate underwriting year accounts in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements 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 on the 2012 year of account of the syndicate, as a body, in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). Our audit work has been undertaken so that we might state to the 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 members on the 2012 year of account of the syndicate as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the syndicate underwriting year 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/auditscope/private.

Opinion on the syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts for the 2012 run-off year of account have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Independent auditor's report to the members of Syndicate 3334 on the 2012 run-off year of account *continued*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005) 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 underwriting year accounts are not in agreement with the accounting records.

Raymond Tidbury (Senior Statutory Auditor)
For and on behalf of Mazars LLP, Chartered Accountants (Statutory Auditor)
Tower Bridge House
St Katharine's Way
London E1W 1DD

24th March 2015

Profit and Loss Account – 2012 Run-Off Year of Account
for the 36 months ended 31st December 2014

Technical account – general business		2012 Run-Off Year of Account	
	Notes	*£'000*	*£'000*
Earned premiums, net of reinsurance			
Gross premiums written and earned	3	77,437	
Outward reinsurance premiums		(3,923)	
			73,514
Reinsurance to close received at previous year end			13,526
Allocated investment return, transferred from the non-technical account			565
Claims incurred, net of reinsurance			
Claims paid – Gross amount		(38,135)	
– Reinsurers' share		1,367	
		(36,768)	
Amount retained to meet all known and unknown outstanding liabilities , net of reinsurance	4	(19,501)	
Claims incurred, net of reinsurance			(56,269)
Net operating expenses	6		(40,529)
Balance on the technical account for general business			(9,193)

Profit and Loss Account – 2012 Run-Off Year of Account
for the 36 months ended 31st December 2014 continued

Non-technical account	Notes	*2012 Run-Off Year of Account £'000*
Balance on the general business technical account		(9,193)
Investment income		698
Net losses on the realisation of investments		(133)
Allocated investment return transferred to the general business technical account	7	(565)
Loss for the run-off year of account	11	(9,193)

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

Balance Sheet – 2012 Run-Off Year of Account

as at 31st December 2014

	Notes	*£'000*	*£'000*
Assets			
Investments	8		2,174
Debtors			
Debtors arising out of direct insurance operations	9	7,223	
Debtors arising out of reinsurance operations	10	615	
Other debtors		3,186	
			11,024
Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown liabilities	4		925
Other assets			
Cash at bank and in hand		595	
Overseas deposits		7,222	
			7,817
Prepayments and accrued income			
Deferred acquisition costs		–	
Other		52	
			52
Amounts due from members	11		48
Total assets			22,040
Liabilities			
Members' balances attributable to underwriting participations	11		(9,193)
Amounts retained to meet all known and unknown liabilities- gross amount	4		20,426
Creditors			
Creditors arising out of direct insurance operations	12	5,055	
Other creditors including taxation and social security		5,074	
			10,129
Accruals and deferred income			
Provision for unearned premiums		–	
Accruals		678	
			678
Total liabilities			22,040

The syndicate underwriting year accounts were approved by the Board of Sportscover Underwriting Ltd on 24th March 2015 and were signed on its behalf by:

Belinda Taylor
Director

Cash Flow Statement – 2012 Run-Off Year of Account

for the 36 months ended 31st December 2014

	Notes	*2012 Run-Off Year of Account £'000*
Loss for the run-off year of account		(9,193)
Net reserves retained to meet all known and unknown liabilities		19,501
Increase in debtors		(11,024)
Increase in prepayments and accrued income		(52)
Increase in creditors		10,129
Increase in accruals and deferred income		678
Net cash inflow from operating activities		10,039
Net cash inflow from operating activities		10,039
Returns on investments and servicing of finance:		
Transfer to members in respect of underwriting participations		–
Financing:		
Members' agents' fees		(48)
	13	9,991
Cash flows were invested as follows:		
Increase in cash holdings	13	595
Net portfolio investment	14	9,396
Net investment of cash flows		9,991

Notes to the Accounts– 2012 run-off year of account

1. **Basis of preparation**

The syndicate underwriting year accounts have been prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005) 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 amended 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.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2012 year of account which has been placed into run-off at the 36 month stage; consequently the balance sheet represents the assets and liabilities of the 2012 year of account as at 31st December 2014 and the profit and loss account and cash flow statement reflect the transactions for that year of account during the 36 month period. As each syndicate year of account is a separate annual venture there are no comparative figures.

2. **Accounting policies**

Underwriting transactions

(a) The underwriting year accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account. The year has been put into run-off due to the uncertainty surrounding the treatment of tax rebates.

(b) The run-off liabilities have been determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs, and unexpired risks) relating to the pure year of account and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at a variance from the liabilities so determined. On close of the year the reinsurance to close premium will transfer the liability at that date in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and will give them the benefit of refunds, recoveries, premiums due and other income in respect of those years which are accounted for after the date of close.

(c) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the syndicate year of account.

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.

2. **Accounting policies** *continued*

(c) Outwards reinsurance premiums are attributed to the same year as the original risk being protected.

(d) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged and are net of estimated irrecoverable amounts.

The recoverability of reinsurance recoveries is assessed having regard to the results of the syndicate's internal review processes and to publicly available financial information. The internal review processes include consideration of the reinsurers' recent payment history with the syndicate, of whether amounts outstanding are past due or disputed, and of whether collateral or rights of offset exist. Publicly available information includes ratings provided by rating agencies and where reliance has been placed on these, it has been assumed that they provide a reliable estimate of the likelihood of the reinsurer in question being able to meet its obligations when called upon to do so.

(e) The outstanding claims comprise 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.

The reinsurers' shares of provisions for claims is based on calculated amounts of outstanding claims and projections for 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. See (d) above for more on the recoverability of reinsurance.

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 methods used, and the estimates made, are reviewed regularly.

(f) A provision for unexpired risks is created where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

2. Accounting policies *continued*

(g) 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.

Investments and investment return

(h) Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

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.

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.

Syndicate operating expenses

(i) Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned as follows:

- Salaries & related costs – according to time of each individual spent on syndicate matters
- Accommodation costs – according to number of personnel
- Other costs – as appropriate in each case

The managing agent 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.

Amounts recharged to the syndicate include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Notes to the Accounts– run-off year of account *continued*

2. **Accounting policies** *continued*

Taxation

(j) 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. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

No provision has been made for any overseas tax payable on the underwriting results or investment earnings.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

(k) Transactions in US dollars, Canadian dollars, Australian dollars, Japanese Yen and Euros are translated at the average rates of exchange for the period or at an approximate average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities are translated into Sterling at the rates of exchange at the balance sheet date 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 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".

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 closing balance sheet date.

Notes to the Accounts– 2012 run-off year of account *continued*

3. Particulars of business written

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

	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	50,358	49,683	(23,358)	(28,501)	(84)	(2,260)
Fire and other damage to property	8,772	8,543	(6,295)	(3,216)	(1,013)	(1,981)
Third party liability	15,497	15,201	(13,405)	(6,353)	(1,050)	(5,607)
Pecuniary loss	4,035	4,010	(2,529)	(1,128)	(263)	90
	78,662	77,437	(45,587)	(39,198)	(2,410)	(9,758)

Geographical analysis by origin

	Gross premiums written £'000	*Loss £'000*	*Net assets £'000*
UK			
Direct/reinsurance accepted	78,662	(9,758)	22,040

Geographical analysis by destination

	Gross premiums written £'000
UK	9,440
EU	2,817
Other European	1,798
Australasia	60,638
North America	3,452
Other	517
	78,662

4. Net reserves retained to meet all known and unknown outstanding liabilities

	Reported £'000	*IBNR £'000*	*Total £'000*
Gross outstandings	10,668	9,758	20,426
Reinsurance recoveries anticipated	(916)	(9)	(925)
	9,752	9,749	19,501

Notes to the Accounts– 2012 run-off year of account *continued*

5. Analysis of result by year of account

	Technical account balance before allocated investment return and net operating expenses
	£'000
2012 pure year of account	36,714
Prior year of account – 2011	(1,644)
Prior year of account – 2010	(2,412)
Prior year of account – 2009	(1,423)
Prior year of account – 2008	(231)
Prior year of account – 2007	(339)
Prior year of account – 2006	106
	30,771

6. Net operating expenses

	£'000
Acquisition costs, written and earned:	
– brokerage and commissions	32,949
– other	1,252
Administrative expenses	5,442
Loss on exchange	886
	40,529

The loss at 36 months is stated after charging:

	£'000
Auditor's remuneration	
Audit services	100
Other services	1
Standard personal expenses	676

7. Investment income and expenses

	£'000
Investment income	698
Realisation of investments	
– losses	(133)
	565

Notes to the Accounts– 2012 run-off year of account *continued*

8. Financial investments

	Cost £'000	Market value £'000
Shares and other variable yield securities	2,174	2,174
	2,174	2,174

The breakdown of investments by currency is set out below:

	£ '000	Euro '000	US$ '000	C$ '000	Total £'000
Shares and other variable yield securities	1	–	587	3,253	2,174
	1	–	587	3,253	2,174

9. Debtors arising out of direct insurance operations

	£'000
Amounts falling due within one year	
Intermediaries	7,223

10. Debtors arising out of reinsurance operations

	£'000
Amounts falling due within one year	
Reinsurances recoverable on paid claims	615

Notes to the Accounts– 2012 run-off year of account *continued*

11. Reconciliation of members' balances

	£'000
Loss for the year of account at 36 months	(9,193)
Members' agents' fees paid on behalf of members	(48)
Members' balances carried forward at 31st December	(9,241)

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.

12. Creditors arising out of direct insurance operations

	£'000
Amounts falling due within one year:	
Intermediaries	5,055

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

	£'000
Net cash inflow for the period	595
Cash flow – portfolio investments	9,396
Movement arising from cash flows	9,991
Changes in market value and exchange rates	–
Total movement in portfolio investments net of financing	9,991
Balance brought forward at 1st January 2011	–
Balance carried forward at 31st December 2013	9,991

	At 1st January 2012	*Cash flow*	*Changes to market value & currencies*	*At 31st December 2014*
	£'000	*£'000*	*£'000*	*£'000*
Cash at bank and in hand	–	595	–	595
Shares and other variable yield securities	–	2,174	–	2,174
Overseas deposits	–	7,222	–	7,222
	–	9,991	–	9,991

14. Net cash outflow on portfolio investments

	£'000
Purchase of shares and other variable yield securities	2,174
Purchase of overseas deposits	7,222
	9,396

15. 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 a multi-currency facility available for use against Sterling, Euro and Australian dollar accounts. The balance outstanding at the balance sheet date was £nil.

16. Related parties

The immediate and ultimate parent company of Sportscover Underwriting Ltd ('SCU') is Wild Goose Holdings Pty Ltd. The managing agency has no subsidiary companies.

Total fees payable to SCU in respect of services provided to the syndicate amounted to £337,500. SCU is entitled to profit commission of 15% on the profits arising from this year, however as the run off year is loss-making no profit commission is accrued on the 2012 year of account.

SCU recharged £654,000 of expenses to Syndicate 3334 in respect of the 2012 year of account.

Wild Goose Holdings Pty Ltd

Wild Goose Holdings Pty Ltd is the ultimate parent entity of the following companies which have had commercial dealings with Syndicate 3334 for the 2012 year of account:

- SCI Capital Ltd, corporate member with a participating share of 93.76% on the 2012 year of account;
- Sportscover Europe Ltd (SCE), service company;
- Sportscover Australia Pty Ltd (SCA), service company;
- Active Underwriting Specialists Ltd, service company;
- Kinetic Insurance Brokers Ltd, placing broker for most of the syndicate's cover-holder business; and
- Venue Rating Agency Pty Ltd (VRA), risk management company.

A total of £6,935,000 was charged to Syndicate 3334 by the placing broker and service companies within the Wild Goose Holdings group for commission and brokerage amounts arising from the binding authorities in place for the 2012 year of account. These costs are part of the total written acquisition costs for the 2012 pure underwriting year of account of £33,905,000.

Notes to the Accounts– 2012 run-off year of account *continued*

16. Related parties *continued*

Additionally, recharges to Syndicate 3334 of salary and administrative expenses incurred by SCA and SCE on behalf of Syndicate 3334 amounted to £1,859,000. These amounts include the costs of SCU directors based in Australia, who are remunerated via the SCA payroll and likewise the internal actuarial function. Within the SCE recharges are amounts for the Contingency and Bloodstock class underwriters and assistants. Their expenses plus other recharges 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 £1,000,000 of these recharges. These include the costs of the Active Underwriter.

VRA charged £251,549 for risk surveys undertaken on instruction from SCA; these costs are included in other acquisition costs in the syndicate's technical account.

Directors of SCU

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 Members, no personal benefit is derived by the directors of SCU from the aforementioned arrangements.

There are no other transactions or arrangements to be disclosed.

17. Post balance sheet events

A cash call of £4,500,000 has been made which will be funded from members' personal reserves funds on 16th June 2015.