

BEAZLEY

Annual Report
2001

Syndicate 623
at Lloyd's

LLOYD'S

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SYNDICATE 623 – SUMMARY FINANCIAL INFORMATION

	1999	1998	1997	1996	1995
Allocated capacity – £'000s	94,699	94,690	89,874	90,013	91,654
Capacity utilised	124%	88%	72%	71%	78%
Aggregate net premiums – £'000s	70,813	56,589	44,489	44,062	48,315
Net capacity utilised	75%	60%	50%	49%	53%
Net profit on an illustrative share	2.0%	0.1%	1.1%	2.9%	8.3%

Note: The summary financial information above should be read in conjunction with the full Annual Report.

UNDERWRITER'S REPORT

CLOSED YEAR

Against a background of difficult trading conditions, we are pleased to be able to close the 1999 year of account at a profit. Premiums throughout the world insurance industry had reduced with the softening market and they proved no match for the increase in loss severity as well as frequency. Furthermore, reinsurance disputes and failures added to the difficulties, with companies having to fund losses gross, thus suffering reduced cash flow or having to make provisions for bad debt.

Our result has been underpinned by continued adherence to underwriting discipline and vigilance regarding counterparty risk. These fundamentals may appear mere commonsense, but are often ignored in the feeding frenzy that occurs when hope overcomes fear and the industry parties on to disaster.

Reserves for prior years are proving robust overall, with earlier years performing better than those most recently closed. These latter years of account have suffered a greater frequency and stronger late development of claims. This phenomena fits with the increase in litigation impacting the service industry sector who purchase coverage for professional negligence and directors and officers liability protection. The Syndicate has exposure to these lines but is protected by specific reinsurance that should mitigate the impact of such losses. We are confident that reserves have been set at an appropriate level.

Whilst the catastrophe and large property risk sectors produced another profitable year, the smaller property risks, written through binding authorities and motor disappointed. Specialty lines also experienced losses in its professional indemnity, contingency and third party sections. Although the level of losses are contained and better than the average for Lloyd's, they reflect the shift in loss climate that has affected the insurance market as a whole.

2000

Our prediction that 2000 would be a year of increasing premiums in the property sector proved to be correct, albeit the up-turn came later in the year. With increasing rates we anticipated the portfolio held promise for better returns. However, the loss frequency for some areas deteriorated and thinner margins have materialised in many sectors. Another good result from the catastrophe account has helped; but just as the results for motor have improved, the homeowners and jewellers accounts deteriorated. In the specialty lines division, one contract covering third party liability to the sports, leisure and entertainment industry has produced unacceptable levels of losses for 1999 and 2000, it was not renewed for 2001. Primary professional indemnity has continued to show an inadequate margin and much work was undertaken during the year to re-engineer the account, weighting it towards the smaller risk segment.

Our investment returns will be less than previous years. Operating an annual venture can result in capital losses for members of a particular year, since we 'mark to market' positions at the year-end. The Board attempts to minimise investment exposure when the underwriting account is marginal. We believe this strategy appropriate for our current constitution, but the present environment of reducing interest rates will mean a reduction of some £4m on investment returns from our original budget.

Our current prediction is for an overall result of between (1.13%) to +3.87%.

2001

This has been a year when we have seen a combination of forces reshaping the market. Insurers and Lloyd's syndicates who expanded rapidly during difficult trading conditions increasingly showed poor results. Consolidation in Lloyd's gathered pace and the number of syndicates operating in the market has fallen from 126 to 108. Reinsurance markets have taken firmer control over their business by increased client selection and tightening the terms for their products. Our business plan targeted a profit of 10% on capacity, which we believed achievable given the improving rate climate.

UNDERWRITER'S REPORT

Confidence in the market was strong with capital providers looking forward to profits and underwriters to a period of stability. No-one was expecting, or indeed contemplated the catastrophe of 11 September, a date that serves as a monument to the awful human tragedy and the greatest 'man-made' loss to face the insurance market. As many have commented, it was an event that changed the world and the insurance market is struggling to come to terms with the near and long-term impact. There is uncertainty for many as to the ultimate liabilities, and the industry is questioning its ability to effectively price, and thus to grant cover against these types of terrorist events.

The impact to the Syndicate from the World Trade Center (WTC) loss is material but within an acceptable level of risk. A sizeable portion of the loss falls to the treaty division which has previously produced excellent results for the Syndicate. Our commercial property account should escape the worst as we had not underwritten many of the large risks that were affected. Our forecast of the gross loss remains unchanged from the estimates provided to Lloyd's last September at £113m, which we project will reduce to £22.5m after reinsurance recoveries and reinstatement premiums.

It is difficult to project the result for 2001 as there is much liability yet to run. Nevertheless, trading conditions improved throughout the year and the last quarter proved stimulating for those with the knowledge, capacity and underwriting skills to respond. The impact from the WTC loss is expected to fall within our internal risk limitations set by the Board. Based on normal loss activity for the remainder of the account, and assuming little change in our WTC exposure, we would hope to produce a break-even result for 2001.

OUTLOOK

All areas of our business are experiencing a tightening of terms and increases in premium rates. Commercial property and catastrophe treaties have been the leaders in the market correction, and we believe that material changes will be seen in the specialty lines and other sectors. These rises have been, and will continue to be selective, with those clients that have shown continuity to the Syndicate benefiting from their loyalty.

Better rated business is flowing into the market through the network of Lloyd's brokers. Our ability to respond to this opportunity is dependent on securing the required amount of capital. Many members increased their support for the Syndicate, but we fell £60m short of our targeted capacity. The Board has therefore effected a qualifying quota share and is investigating other avenues to ensure we can fulfil the promise of stability and continuity to our clients.

Many of you are anticipating profits to be made over the next few years and so you should; however a word of caution. The future presents the opportunity a combination of risk and reward. Risk because the environment is uncertain and reinsurance capacity, which will be more expensive, may not be available to such a comprehensive degree. Premium rates increased during 2001 and are continuing to increase through 2002 but there can be no guarantee that losses will not also increase in both severity and frequency. Society and Mother Nature do not tell us when, and from where the next loss will come. But, if we enjoy an average loss pattern, then your Syndicate stands to deliver a good profit.

Finally, it is thanks to all of those who toil for your benefit, and make this an interesting and fun place to work, that I am able to report these results and forecasts. With the market announcing losses year on year, working under the franchise of Lloyd's can be a dampener on morale, so it takes a committed and effective team to deliver. You have such a team.

UNDERWRITER'S REPORT
REINSURANCE

The Syndicate's retention's under its core reinsurance programmes remains substantially unchanged for 2001 and to cater for the Syndicate's growth in premium income, qualifying quota share was purchased to cover the specialty lines account.

Last year, as we predicted, the reinsurance market hardened. Good relationships with our reinsurers has paid dividends and we have been able to renew the majority of our programmes at sensible prices. The WTC loss caused further dislocation to an already fractured market and its effect is likely to be long reached. In 2002 we anticipate being required to pay substantially increased reinsurance costs and being asked to run much larger retentions. We have factored this into our business plan.

The Syndicate's exposure to catastrophe losses is regularly monitored and reinsurance protections are purchased in accordance with loss parameters set by the Board. Although our catastrophe programme will cater for most events, it is not however possible to buy sufficient protection to cater for all eventualities. The scrutiny of reinsurance security remains the responsibility of the Syndicate's Reinsurance Security Committee, which utilises market research provided by Benfield Advisory.

The percentages of total reinsurance costs payable to the Committee's designated categories of reinsurers are as follows:

	1999	2000	2001
	%	%	%
Lloyd's	9.4	14.9	19.2
DTI approved companies	58.5	62.0	52.9
Non-DTI approved companies	32.1	23.1	27.9
Companies within the EC	80.0	85.7	83.8

The non-DTI approved companies from which we purchase reinsurance comprise non-UK domiciled insurance companies, all of which have been vetted by the Security Committee. The information in the above table has been calculated on the basis of material reinsurance placed.

GROSS PREMIUM INCOME

The levels of gross premiums received converted to sterling at premium monitoring rates as a percentage of gross allocated capacity are as follows:

	1999		2000		2001	
	£m	%	£m	%	£m	%
Capacity	94.7		125.2		215.3	
@ 12 months	60.9	64.3	73.8	58.9	137.2	63.7
@ 24 months	105.4	111.2	129.8	103.7		
@ 36 months	110.9	117.1				

UNDERWRITER'S REPORT

PREMIUM INCOME LIMITS AND UTILISATION

	1999	2000	2001
	£m	£m	£m
Syndicate allocated capacity	94.7	125.2	215.3
Gross premiums at rates of exchange applicable to premium income monitoring			
Qualifying quota share	16.5	11.9	22.0
Actual at 31 December 2001	110.9		
Estimated at 36 months		137.1	258.6
Net utilisation	99.7%	100.0%	110.0%
Rates of exchange			
US dollar	1.60	1.63	1.64
Canadian dollar	2.20	2.37	2.36

The Syndicate currently has in place a number of qualifying quota share agreements covering the 1999, 2000 and 2001 years of account. These will provide the additional capacity for the Syndicate to write gross income in excess of its stamp capacity. Consent has been given for the Syndicate to overwrite by 10% for the 2001 year of account.

NET PREMIUM INCOME

The levels of net premiums translated at premium monitoring rates and as a percentage of gross allocated capacity are as follows:

	1999		2000		2001	
	£m	%	£m	%	£m	%
Capacity	94.7		125.2		215.3	
@ 12 months	35.0	37.0	39.3	31.3	86.0	39.9
@ 24 months	63.6	67.2	78.0	62.2		
@ 36 months	66.2	69.9				

Net premium income signed is unlikely to exceed the allocated capacity for any one of the above years.

INCURRED LOSS RATIOS

at audit rates of exchange	1999		2000		2001	
	Gross %	Net %	Gross %	Net %	Gross %	Net %
@ 12 months	36.4	35.5	22.3	30.0	75.3	27.5
@ 24 months	62.7	60.5	62.5	53.0		
@ 36 months	88.5	74.1				

UNDERWRITER'S REPORT**ILLINOIS LICENSED BUSINESS**

The arrangements for writing Illinois licensed business require licensed members i.e. non-US external individual members of the Syndicate, to accept Illinois risks and to cede a proportion of each such risk to unlicensed members of the Syndicate. The proportion of each Illinois risk that is retained by licensed members and the excess over that proportion that is ceded to unlicensed members is calculated by reference to the amount of Lloyd's regulatory deposit held in Illinois.

	1999	2000	2001
	£000's	£000's	£000's
Premiums accepted	2,880	2,389	2,579

 UNDERWRITER'S REPORT

ANALYSIS OF THE ACCOUNT

	1999 at 36 mths	2000 at 24 mths	2001 at 12 mths
	%	%	%
Category of Business			
Long tail	32.7	30.2	21.6
Short tail	67.3	69.8	78.4
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Department			
Specialty Lines	46.0	42.7	33.6
Global Property	20.6	26.9	30.5
Reinsurance	11.8	13.7	20.9
Retail and Personal Lines	10.0	8.7	11.5
Marine	8.0	7.1	3.4
Personal Accident	3.6	0.9	0.1
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Currency			
Sterling	33.4	32.7	22.5
US Dollars	64.2	65.0	75.3
Canadian Dollars	2.4	2.3	2.2
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Acceptance			
Facultative	38.8	40.7	41.9
Excess of Loss Treaty	13.6	13.1	12.2
Line Slip	12.9	10.5	7.3
Binding Authority	31.4	33.1	36.5
Proportional Treaty	3.3	2.6	2.1
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Note: The figures shown above are subject to fluctuation during the second and third years.

DESCRIPTION OF BUSINESS UNDERWRITTEN

INTRODUCTION

The Syndicate's account is underwritten by four departments:

1 SPECIALTY LINES

Professional Lines

Professional lines is the largest part of specialty lines in terms of both income and underwriting resources. The book is split between the US and International. The US book is further split by 'large risks' which is characterised by new opportunities presented by the hardening US market and core account 'small risks' underwritten both at the box and through the Eazypro trading system.

International professional lines focuses on areas where Lloyd's expertise is a vital supplement to standard local market products.

Financial Contingency

Financial contingency is a small part of specialty lines but a key part of our sophisticated product offering. New areas of financial loss such as liquidated damages, intellectual property, mergers and acquisitions and tax credit risks are considered in a lead market role. Opportunities in the standard contingency (cancellation) market are also underwritten in this section.

A major consideration in these areas is to examine the risk retention and risk mitigation position of the potential insured party.

Specialty Liability

Building on the expertise in specialty lines, we are developing a treaty expertise. We focus on professional lines products where we possess existing underwriting knowledge as well as business that is difficult to access facultatively in London. Where a treaty presents the most efficient and profitable way to access a pool of business, or where local presence in a market improves the quality and volume of business that we can access, we can provide treaty capacity.

We avoid treaties that compete with our facultative book, or that can add accumulation to facultative business. Our clients are small to medium sized, whose interests are aligned with our own.

Employment Practice Liability (EPL)

We are the London market leader in EPL business. The existing portfolio comprises around 10,000 small to medium sized US risks. We target those with less than 5,000 employees, and over 90% by premium volume employ less than 250 people. Business is accessed both at the box and via coverholders with a degree of delegated authority. There is a strict monitoring, auditing and referral procedure to ensure close control. Over 35% of business written via binding agreements is individually submitted to London. The book has a high degree of homogeneity that allows for regular portfolio analysis and rate adequacy testing.

UNDERWRITER'S REPORT

Political Risks

The political risks book is approximately 50% contract frustration, 50% confiscation/expropriation/nationalisation. In political risks our strategy is to focus on risk quality (either by concentrating our capacity on quality long-term buyers of insurance and/or by underlying risk quality). Through market leadership we are also targeting more of the better quality investment business and recurring trade related business (the latter through banks and/or traders who must have a proven track record in the country and field of activity).

In addition, we offer a 'stand alone' terrorism coverage to property risks where this coverage has been excluded.

Recall

We are the London market leader for recall risks and one of two primary global markets. Recall incorporates accidental and malicious contamination events. The target risks are almost exclusively food and beverage manufacturers with a geographically spread account base throughout the developed world. Business is primarily underwritten at the box or via controlled and limited facilities with identified proven partners.

2 REINSURANCE

Property Reinsurance

The Syndicate has specialised in writing property catastrophe risk excess and pro rata business since it's formation in 1986. While market capacity has fluctuated dramatically during the last 16 years in response to catastrophes, we have remained committed to this market and have increased our support to many of our long-standing clients.

The portfolio consists of business in most territories of the world but is particularly strong in the USA, the UK, Japan, Canada and Australasia.

The underwriters employ the most up-to-date software programmes and analytical tools to assist risk assessment and to help utilise available capacity more effectively.

The Syndicate attaches particular importance to client visits and meetings in order to develop a proper understanding of each risk.

The combination of experience, technical support and a good understanding of clients' reinsurance requirements enable the Syndicate to set terms in this class.

Casualty Reinsurance

The Syndicate provides reinsurance capacity to cedants who operate in areas which are complementary to our large direct casualty account. Access to business, geographical location and local market standing are all key factors in risk assessment.

The major part of the portfolio consists of catastrophe layers, protecting companies' Auto and WCA accounts. We actively promote the purchase of claims-made policies to supplement traditional occurrence coverage.

3 PROPERTY GROUP

Corporate Accounts

The Syndicate leads both primary and excess commercial property business. We take substantial positions with key clients who are committed to managing their own risk and who look for long-term stability in price and carriers.

The Syndicate has the expertise and experience to assess, price and structure risks throughout the world, utilising the support of recognised engineers and to work with clients on all aspects of risk management and risk control.

Overall emphasis is placed on service as a means to product enhancement. In-house technical support is provided and this includes claims and policy wordings specialists.

A further senior underwriter has been recruited to assist underwriting the open market accounts so that full advantage can be taken of the improving market conditions.

With the appointment of a specific covers underwriter in 2000, the covers book has recently undergone a thorough review with marginal and loss making contracts being non-renewed.

The book of business is written worldwide, encompassing commercial property, trucking (FTC), private motor and homeowners (excluding UK).

Binding authorities are granted to experienced agents through selected brokers who enable us to access smaller premium business both economically and profitably.

Homeowners

Beazley works with brokers to develop tailor-made products for their individual requirements, both within the UK and overseas. This recognises that individual portfolios of business have different requirements. Combining this flexibility with the use of up to date technology, we remain competitive.

Technology is key to this class of business and in the UK we use a database developed by the British Geological Survey to assist in the underwriting risk of subsidence. This underwriting tool allows us to assess the risk of subsidence at varying levels of detail. In some areas we are able to evaluate a property at street level by utilising the full postcode. Where contents insurance is required we rate at postcode sector level.

We consider the best vehicle for this business to be a binding authority granted to selected brokers and agents.

Block Policies

The largest class within this portfolio is made up of jewellers block and we lead the approved scheme for the National Association of Goldsmiths. Within the class of jewellers block we have expertise in all areas of the trade including manufacturing, wholesale and retail. The standard policy gives comprehensive coverage for stock, loss of profits, buildings, rent, personal accident and stress counselling. The Syndicate promotes a high level of risk management and awareness to the jewellery trade as this adds value to the insurance product.

Other classes of block policies include antique dealers, fine art dealers, galleries, auctioneers and other similar type businesses within the trade.

UNDERWRITER'S REPORT

Swiss Consortium

The consortium was formed to create a focal point for an existing book of small commercial property, homeowners and personal accident business in Switzerland. We are developing the existing portfolio by working closely with brokers to refine our current business and introduce some of the products that have been successful in other territories.

4 MARINE

The marine team provide long-term insurance solutions to the maritime related industries. Since the team arrived at the end of 1998 the book has experienced steady but focused growth commensurate with tough market conditions.

Vessels

The marine division is a recognised leader of owner-operated shipping company business. The team places a high degree of emphasis on maintaining close and knowledgeable relationships with the management and business of these companies. Coverage is tailored for a broad spectrum of ages and vessel types.

Voyage and Tow Risks

We have always been a high profile leader in this area but our position has been further reinforced by the introduction of our 'Voyagesure' website. This provides a fully interactive on line facility for the management of hull voyage and towage risks. The broad coverage encompasses both hull interests and associated liabilities.

Risks can be quoted and bound on line with the automatic production of a Lloyd's covernote. This provides tangible economies for both underwriters and brokers.

Marine Liability

The team has developed a broad portfolio in this area with reinsurance as well as direct business and consortium participation.

A F Beazley
Active Underwriter
15 March 2002

MANAGING AGENT'S REPORT

MANAGING AGENCY

Beazley Furlonge Limited has been the Managing Agent of Syndicate 623 throughout the period covered by this report and its registered office is One Aldgate, London EC3N 1AA.

DIRECTORS

The current directors of Beazley Furlonge Limited and their 2001 premium income limits on Syndicate 623 are disclosed on page 37.

RISK MANAGEMENT

The Managing Syndicate Risk Committee, chaired by N H Furlonge, was formed during the year and it reports directly to the Board.

The Committee is charged with setting the internal controls for the acceptance of risk and monitoring compliance with the parameters granted by the Board. It also acts in an advisory capacity to the Board in identifying new emerging areas of risk that could impact on the business of the Syndicate.

INVESTMENT REPORT

The investment returns achieved were lower than last year as yields continued to fall throughout the year.

The strategy established by the Investment Committee was based on the expected result of the 1999 year. As only marginal profitability was predicted, it was agreed not to expose the investment portfolio to significant market risk.

The benchmark set for Alliance Capital Limited for all three currencies was the yield on the one year government bond as at 1 January 2001. This benchmark return was bettered in all currencies as value was added by purchasing corporate bonds and by benefiting in the fall in yields during the year.

The investment returns achieved were as follows:

	Calendar Year Yield		Split by Currency	
	2001	2000	2001	2000
	%	%	%	%
Sterling	5.8	6.9	16.0	15.2
US Dollars	5.6	7.1	80.0	80.8
Canadian Dollars	5.3	5.9	4.0	4.0
Overall average return	5.6	7.0		

In each currency, the strategy of matching the benchmark was continued until the end of the year when the portfolio was re-positioned to take account of the strategy for 2002.

A similar strategy will be followed during 2002 as the 2000 year of account profitability is expected to be marginal. The overall returns for this year are expected to be substantially lower as interest rates fell both in the UK and US in 2001.

MANAGING AGENT'S REPORT

SYNDICATE GENERAL MEETING

In accordance with the recent change in the Byelaws, an application has been made to the Council of Lloyd's to waive the requirement for having a Syndicate General Meeting as it is intended to re-appoint Mazars Neville Russell as auditors. As there is no other business to consider at the meeting, no Annual General Meeting of the Syndicate will be held.

2000 UNDERWRITING ACCOUNT – 24 MONTH FORECAST	£'000
Allocated capacity	125,186
2000 open year of account balance as at 31 December 2001	131,941
Estimated future liabilities and underwriting accruals for the 2000 year of account as at 31 December 2001	(130,448)
Estimated movement of non-underwriting items during 2002	3,165
Estimate of profit before personal expenses for the 2000 year of account after 36 months	4,658
Estimate of standard personal expenses including profit commission	(2,896)
Estimate of profit after personal expenses for the 2000 year of account after 36 months	1,762
As a percentage of capacity	1.4%

The estimated range of results is therefore considered to be (1.1%) to 3.9% before Members' Agents' fees.

The above forecast has been made on the basis of assumptions that whilst considered reasonable, may however, prove different to the eventual outcome and may therefore cause the final result to vary from this forecast. Particular assumptions included in the forecast are:

- 1 the assessment of the liabilities accepted in Reinsurance to Close received from the 1999 account does not vary substantially during the year;
- 2 the rate of exchange does not vary significantly from 31 December 2001 rates of US \$1.46 and Canadian \$2.32 to the £;
- 3 the 2000 account closes into the 2001 account at 31 December 2002;
- 4 the assessment of the liabilities for the 2000 account does not materially alter from the current estimates;
- 5 there will be no material reinsurance failures; and
- 6 syndicate expenses, incurred in the calendar year 2002 to be charged to the 2000 year of account, will continue the pattern of previous years as refined by current budgets.

MANAGING AGENT'S REPORT

FURTHER INFORMATION

Your attention is drawn to pages 37 to 42 of this document which provide further information relating to the Managing Agency.

By order of the Board
A R Manners
Director
15 March 2002

REPORT OF THE AUDITORS

TO THE MEMBERS OF SYNDICATE 623

We have audited the Annual Report, set out on pages 15 to 36, which has been prepared in accordance with the Lloyd's Syndicate Accounting Rules and the accounting policies set out in note 2 to the Annual Report.

Respective Responsibilities of the Managing Agent and Auditors

As described on page 15, the Managing Agent is responsible for the preparation of the Annual Report. Our responsibilities, as independent auditors, are established by Lloyd's Bylaws, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the Annual Report gives a true and fair view of the result of any closed year and has been properly prepared in accordance with Lloyd's Syndicate Accounting Rules. We also report to you if, in our opinion, the Managing Agent's and Underwriter's reports are not consistent with that Annual Report, if the Managing Agent has not kept proper accounting records in respect of the Syndicate, if the Managing Agent has not established and maintained the systems and procedures necessary to enable it to comply with the Disclosure of Interests requirements of the Lloyd's Syndicate Accounting Rules, if the Annual Report is not in agreement with the accounting records and if we have not received all the information and explanations we require for our audit.

We read the other information attached to the Annual Report and consider whether it is consistent with the audited Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Report.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Report. It also includes an assessment of the significant estimates and judgements made by the Underwriter and Managing Agent in the preparation of the Annual Report, and of whether the accounting policies are appropriate to the Syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Annual Report is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Annual Report.

Opinion

In our opinion, the Annual Report has been properly prepared in accordance with the Lloyd's Syndicate Accounting Rules and gives a true and fair view of the profit of the 1999 closed year of account.

MAZARS NEVILLE RUSSELL
Chartered Accountants and Registered Auditors
24 Bevis Marks
London
EC3A 7NR

15 March 2002

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES at 31 December 2001

The Syndicate Accounting Byelaw (No. 18 of 1994 as amended) requires the Managing Agent to prepare an Annual Report, personal accounts and syndicate MAPA accounts for each syndicate managed by it at 31 December each year.

The Managing Agent must prepare the Annual Report, personal accounts and syndicate MAPA accounts in accordance with the Lloyd's Syndicate Accounting Rules, so as to ensure that the net result shown in each underwriting member's personal account and each syndicate MAPA account has been calculated in accordance with the applicable Agency Agreements and, where a year of account closes, so as to give a true and fair view of the closed year result.

In preparing the Annual Report, personal accounts and syndicate MAPA accounts the Managing Agent is required to:

- (a) 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 account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) take into account all income and charges relating to a closed year of account in the underwriting account prepared in respect of that year of account, without regard to date of receipt or payment; and
- (d) follow applicable accounting standards, subject to any material departures disclosed and explained in the Annual Report.

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 to enable it to ensure that the Annual Reports, personal accounts and syndicate MAPA accounts comply with the Lloyd's Syndicate Accounting Rules. 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.

UNDERWRITING FIGURES
**1999 UNDERWRITING ACCOUNT CLOSED AFTER THREE YEARS
at 31 December 2001**

	Notes	1999 account			1998 account
		after 2 years	change in calendar year	after 3 years	after 3 years
		£'000	£'000	£'000	£'000
Syndicate allocated capacity		94,699		94,699	94,690
Gross premiums written (net of brokerage)		110,237	7,137	117,374	83,605
Outward reinsurance premiums		42,108	4,453	46,561	27,016
Net premiums		68,129	2,684	70,813	56,589
Reinsurance to close premiums received from earlier years of account	3	71,356	799	72,155	62,555
		139,485	3,483	142,968	119,144
Gross claims paid		45,112	54,396	99,508	63,904
Reinsurers' share		13,709	27,158	40,867	18,175
Net claims		31,403	27,238	58,641	45,729
Reinsurance premium paid to close the year of account	4	–	81,887	81,887	71,356
		31,403	109,125	140,528	117,085
Balance on technical account before profit on exchange and syndicate operating expenses		108,082	(105,642)	2,440	2,059
(Loss)/profit on exchange		(64)	(231)	(295)	27
Syndicate operating expenses	5	(4,952)	(312)	(5,264)	(5,516)
Balance on technical account	6	103,066	(106,185)	(3,119)	(3,430)
Investment income	7	2,401	4,547	6,948	5,672
Investment expenses and charges		(16)	(138)	(154)	(129)
Investment gains less losses		201	355	556	277
Profit for the closed year of account	13	105,652	(101,421)	4,231	2,390

The notes on pages 20 to 35 form part of these accounts.

UNDERWRITING FIGURES

**2000 YEAR OF ACCOUNT AFTER TWO YEARS
at 31 December 2001**

	Notes	2000 account			1999 account
		after 1 year	change in calendar year	after 2 years	after 2 years
		£'000	£'000	£'000	£'000
Syndicate allocated capacity		125,186		125,186	94,699
Gross premiums written (net of brokerage)		78,624	60,640	139,264	110,237
Outward reinsurance premiums		37,254	20,434	57,688	42,108
Net premiums		41,370	40,206	81,576	68,129
Reinsurance to close premiums received from earlier years of account	4	–	81,887	81,887	71,356
		41,370	122,093	163,463	139,485
Gross claims paid		6,755	37,738	44,493	45,112
Reinsurers' share		1,152	14,735	15,887	13,709
Net claims		5,603	23,003	28,606	31,403
Balance on technical account before profit on exchange and syndicate operating expenses		35,767	99,090	134,857	108,082
Loss on exchange		(12)	(256)	(268)	(64)
Syndicate operating expenses	5	(5,303)	(389)	(5,692)	(4,952)
Balance on technical account		30,452	98,445	128,897	103,066
Investment income	7	468	2,290	2,758	2,401
Investment expenses and charges		–	(9)	(9)	(16)
Investment gains less losses		65	230	295	201
Balance on open year	14	30,985	100,956	131,941	105,652

The notes on pages 20 to 35 form part of these accounts.

 UNDERWRITING FIGURES

**2001 YEAR OF ACCOUNT AFTER ONE YEAR
at 31 December 2001**

	Notes	2001 account after 1 year	2000 account after 1 year
		£'000	£'000
Syndicate allocated capacity		215,317	125,186
Gross premiums written (net of brokerage)		149,578	78,624
Outward reinsurance premiums		57,228	37,254
Net premiums		92,350	41,370
Gross claims paid		17,003	6,755
Reinsurers' share		7,941	1,152
Net claims		9,062	5,603
Balance on technical account before syndicate operating expenses		83,288	35,767
Loss on exchange		(41)	(12)
Syndicate operating expenses	5	(7,285)	(5,303)
Balance on technical account		75,962	30,452
Investment income	7	1,220	468
Investment gains less losses		153	65
Balance on open year	14	77,335	30,985

The notes on pages 20 to 35 form part of these accounts.

BALANCE SHEET

**BALANCE SHEET
at 31 December 2001**

	Notes	2001	2000
		£'000	£'000
ASSETS			
Financial investments	9	139,743	107,026
Deposits with ceding undertakings		253	96
Debtors	10	39,016	20,511
Other assets			
Cash at bank and in hand		28,636	12,955
Overseas deposits	11	23,675	18,638
Prepayments and accrued income		941	1,293
TOTAL ASSETS		<u>232,264</u>	<u>160,519</u>
LIABILITIES			
Profit/(Loss) on 1999/(1998) year of account	12	1,466	(280)
Balance on 2000/(1999)	13	128,993	103,400
Balance on 2001/(2000)	13	72,605	28,033
Creditors	14	23,728	28,563
Accruals and deferred income	15	5,472	803
TOTAL LIABILITIES		<u>232,264</u>	<u>160,519</u>

The Annual Report was approved at a meeting of the Board of Directors and by the Active Underwriter on 15 March 2002.

A F Beazley)	Active Underwriter
)	Director – For and on behalf of
A R Manners)	Beazley Furlonge Limited

The notes on pages 20 to 35 form part of these accounts.

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS at 31 December 2001

1 BASIS OF PREPARATION OF THE ANNUAL REPORT

The Annual Report, comprising the balance sheet, underwriting accounts, seven year summary, statement of disclosure of interests, statement of managing agent's responsibilities and these notes, is prepared in accordance with the Lloyd's Syndicate Accounting Rules.

2 ACCOUNTING POLICIES

a) Underwriting Transactions

- i) Each account is normally kept open for three years and the underwriting result is ascertained at the end of the third year when the account is closed, normally by reinsurance into the following year of account.

The balances on the open accounts at the balance sheet date are subject to further transactions up to their respective dates of closure and, in particular, no provision is made for the estimated future liability of these accounts. These balances do not purport to give any indication of the likely profit or loss that may be determined when these accounts are closed.

- ii) The accounts include:
 - a) Premiums less brokerage and discount (net of return premiums), claims, including internal and external claims settlement expenses, reinsurance premiums ceded and reinsurance recoveries as processed through the Lloyd's Policy Signing Office up to and including the balance sheet date.

From 1 January 1995 premiums have been allocated to a year of account on the basis of the date on which the policy incepts but no policy has been allocated to a year of account prior to 1995. Return premiums and claims are allocated to the year of account to which the related premiums are allocated.

The costs of reinsurance ceded are allocated to the appropriate year of account on bases which reflect fairly the allocation of the underlying business being protected.

Salvages and reinsurance recoveries are allocated to the year of account to which the related claim was charged.

- b) In respect of all years, accruals of known reinsurance recoveries and any related reinsurance premiums.
 - c) In respect of closing and running-off years, accruals of known additional and return premiums and reinsurance premiums.
- iii) An amount to meet all known and unknown outstanding liabilities is required to be calculated for all years of account at the end of the third or subsequent year. This sum will form the basis of the reinsurance to close if the year is closing, or if the year is running-off will be retained by that year as an amount to meet all known and unknown outstanding liabilities.

NOTES TO THE ACCOUNTS

A reinsurance to close is a contract of insurance which, in return for a premium paid by the closing year of account, transfers normally to the following year of account, any liability arising out of transactions connected with insurance business underwritten by the closing year and previous years from 1993 onwards.

The premium for the reinsurance to close is calculated by the Active Underwriter based on the latest loss information available at the time of making such calculation.

The calculation allows for the estimated net cost of claims which may have been incurred but not yet reported; such allowance is established by the Active Underwriter exercising his judgement aided by statistical projections based on the history of past claim settlements and by reference to case by case reviews of notified losses.

The calculation includes estimates as set out above, for known outstanding claims, claims which may have been incurred but not reported and potential reinsurance recoveries. The uncertainties which are inherent in the process of estimating are such that, in the normal course of events, unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ from that presently estimated.

Credit is taken for any reinsurance recoveries that are presently estimated to be recoverable and provision is made for estimated claims handling expenditure. No credit is taken for investment earnings which may be expected to arise in the future on the funds representing the reinsurance to close.

b) Investments

- i) Investments are stated at market value, including accrued interest at the balance sheet date.
- ii) The cost of investments held at 31 December is the aggregate of:
 - a) investments held at 1 January and 31 December at the previous balance sheet valuation; and
 - b) the cost of investments acquired during the year and held at the balance sheet date.
- iii) The investment return comprises income received and investment profits and losses net of investment expenses and charges arising in the calendar year including appreciation/depreciation and accrued interest consequent upon the revaluation of investments at 31 December.

The return is allocated between the underwriting accounts in proportion to the average balances on those accounts.

- iv) The calendar year investment yield is computed from the average amount of syndicate funds available for investment and aggregate investment return during the calendar year. The funds available for investment are calculated on a monthly basis and consist of all investments at opening value adjusted for cost of sales and purchases during the month, overseas deposits and bank balances, less any bank borrowings, at a consistent and representative point in the month. The aggregate investment return is the total amount of income and appreciation reported in these accounts, before taxation and apportionment to years of account, less any interest paid or payable on bank borrowings.

NOTES TO THE ACCOUNTS

c) Overseas Deposits

Overseas deposits are stated at the market value ruling at the balance sheet date. The cost of investments held within these deposits is determined either on the same basis as for syndicate investments or on the basis of notification received from Lloyd's.

d) Foreign Currency Translation and Conversion

The Syndicate operates in three separate currency funds of sterling, United States dollars and Canadian dollars. Items expressed in United States and Canadian dollars are translated to sterling at the rates of exchange ruling at the balance sheet date. Items brought forward from the previous years are therefore revalued at those rates. The differences arising from this revaluation are included in the calendar year movements disclosed for each underwriting account heading.

Transactions during the year in other overseas currencies are expressed in sterling at the rates ruling at the transaction date.

Where United States dollars or Canadian dollars are sold for the closed Underwriting Account after 31 December, on account of the syndicate and personal expenses paid in sterling, any profit or loss arising is reflected in the following closed Underwriting Account. Any profit or loss arising on the remaining Canadian dollar balance is reflected in the Underwriting Account into which the liabilities of that year have been reinsured. Any distributable United States dollar balance for the closed Underwriting Account, in accordance with Lloyd's requirements, is payable to the members. Consequently, any profit or loss arising after 31 December in respect of these amounts is the personal responsibility of the underwriting members of that closed year.

Where United States or Canadian dollars are bought or sold in respect of an open Underwriting Account after 31 December any profit or loss arising is reflected in the next underwriting account prepared for that open account.

The United States dollar and Canadian dollar exchange rates ruling at 31 December 2001 are US\$1.46 and C\$2.32 respectively (2000: US\$1.49, C\$2.24). The comparative figures are translated into sterling at the exchange rates ruling at 31 December 2000.

e) Taxation

Regulations issued under the authority of the Finance Act 1993, and which apply from Lloyd's 1993 years of account, no longer require managing agents to deduct basic rate income tax from trading income. Under the same regulations, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and, therefore, the distribution accounted to the Members Services Unit of the Corporation of Lloyd's on behalf of the underwriting members is gross of tax.

In addition, with effect from 1 January 1994, capital appreciation falls within trading income and is also distributed gross of tax.

No provision is made on behalf of the members for United Kingdom income tax relating to either the net underwriting result or the investment income.

It is the personal responsibility of all members to agree and settle their United Kingdom taxation liabilities with the Inland Revenue.

NOTES TO THE ACCOUNTS

New arrangements in place from the 1995 year of account distribution mean that managing agents are no longer responsible for paying members' final United States and Canadian federal income tax assessments.

Any United States and Canadian federal income tax as shown on the final assessment relative to each member will be charged to the member's consolidated personal account.

Managing agents, however, remain responsible for payments on account of United States and Canadian federal income tax. Any on account payments made by the Syndicate have been included in the balance sheet under the heading of 'other debtors'.

It is the personal responsibility of members, resident in the United States or Canada to agree and settle their United States or Canadian taxation liabilities.

f) Syndicate Operating Expenses

Costs incurred jointly by the Managing Agent and the Syndicate for the provision of office staff and facilities have been apportioned on a basis of time involved and the degree of usage of facilities.

All syndicate expenses are allocated to the year of account for which they are incurred. 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 for each type of expense.

The expenses of the open years of account are provisional and are not finalised until the accounts are closed.

g) Profit Related Remuneration

For the closed year of account, staff profit related remuneration is charged to the Syndicate.

h) Insurance Debtors and Creditors

In the normal course of business, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which it represents.

Under the requirements of Financial Reporting Standard 5 'Reporting the Substance of Transactions' (FRS5) issued by the Accounting Standard Board, individual assets and liabilities should not be offset unless certain specific criteria is met. Accordingly, balances with brokers are shown gross except where any rights of set-off are certain.

3 REINSURANCE RECEIVED FROM THE 1998 YEAR OF ACCOUNT

The net premium receivable differs from the reinsurance to close premium paid by the 1998 account due to movements in exchange rates.

NOTES TO THE ACCOUNTS

4 REINSURANCE PREMIUMS TO CLOSE THE 1999 YEAR OF ACCOUNT

	1999 account at 36 months	1998 account at 36 months
	£'000	£'000
Gross notified outstanding claims	83,620	58,720
Reinsurance recoveries anticipated	44,205	26,118
Net notified outstanding claims	39,415	32,602
Provision for gross claims incurred but not reported	75,799	55,971
Reinsurance recoveries anticipated	34,251	17,858
Provision for net claims incurred but not reported	41,548	38,113
Claims handling expense provision	924	641
Net premium for reinsurance to close	81,887	71,356

5 SYNDICATE OPERATING EXPENSES

	1999 account			1998 account
	after 2 years	change in calendar year	after 3 years	after 3 years
	£'000	£'000	£'000	£'000
Closed Year of Account after three years				
Salaries and related costs	2,666	204	2,870	2,338
Accommodation	319	8	327	356
IT & computer costs	751	64	815	830
Lloyd's processing costs	176	52	228	157
Overseas operating costs	500	(15)	485	310
Premium levy	1,211	98	1,309	926
Syndicate auditor's remuneration – audit	21	28	49	43
– other	–	2	2	–
Other professional fees	154	29	183	127
Charges relating to use of fixed assets	60	6	66	79
Other expenses	597	109	706	416
Commissions earned	(1,503)	(273)	(1,776)	(66)
	4,952	312	5,264	5,516

NOTES TO THE ACCOUNTS

5 SYNDICATE OPERATING EXPENSES (Continued)

	2000 account			1999 account
	after 1 year	change in calendar year	after 2 years	after 2 years
Open Year of Account after two years	£'000	£'000	£'000	£'000
Salaries and related costs	2,949	117	3,066	2,666
Accommodation	347	6	353	319
IT & computer costs	643	169	812	751
Lloyd's processing costs	72	86	158	176
Overseas operating costs	160	502	662	500
Premium levy	799	714	1,513	1,211
Lloyd's regulatory levy	106	7	113	–
Syndicate auditor's remuneration – audit	14	14	28	21
– other	–	1	1	–
Other professional fees	236	45	281	154
Charge relating to use of fixed assets	70	4	74	60
Other expenses	595	131	726	597
Commissions earned	(688)	(1,407)	(2,095)	(1,503)
	<u>5,303</u>	<u>389</u>	<u>5,692</u>	<u>4,952</u>
			2001 account after 1 year	2000 account after 1 year
Open Year of Account after one year			£'000	£'000
Salaries and related costs			4,375	2,949
Accommodation			360	347
IT & computer costs			919	643
Lloyd's processing costs			118	72
Overseas operating costs			405	160
Premium levy			1,517	799
Lloyd's regulatory levy			179	106
Syndicate auditors' remuneration – audit			19	14
Other professional fees			348	236
Charges relating to use of fixed assets			72	70
Other expenses			878	595
Commissions earned			(1,905)	(688)
			<u>7,285</u>	<u>5,303</u>

NOTES TO THE ACCOUNTS

5 SYNDICATE OPERATING EXPENSES (Continued)

During the calendar year the aggregate amount of remuneration paid to and for the benefit of the Active Underwriter and charged as syndicate expenses was:

	2001	2000
	£'000	£'000
Salary	220	175
Pension contributions	55	30
	<u>275</u>	<u>205</u>

'Premium Levy' refers to an additional central levy on all members of Lloyd's underwriting in 1997 and subsequent years of account. The levy, which is centrally set, was set at 1.1% of gross premiums for the period to 31 December 2001. For the calendar years 2002 and 2003, the levy has been increased by 0.9% to a rate of 2% of gross premiums.

In accordance with the Syndicate Accounting (Amendment No. 7) Byelaw (No. 17 of 1998) certain syndicate operating expenses have been reclassified as internal claims settlement expenses and included under gross claims paid.

6 BALANCE ON TECHNICAL ACCOUNT FOR THE CLOSED YEAR

	2001	2000
	£'000	£'000
Profit/(Loss) attributable to business allocated to the 1999 (1998) pure year of account	949	(2,307)
Profit attributable to business reinsured into the 1999 (1998) year of account	1,491	4,366
	<u>2,440</u>	<u>2,059</u>
Profit on exchange	(295)	27
Syndicate operating expenses	(5,264)	(5,516)
Balance on technical account	<u>(3,119)</u>	<u>(3,430)</u>

NOTES TO THE ACCOUNTS

7 INVESTMENT INCOME

	1999 account			1998 account
	after 2 years	change in calendar year	after 3 years	after 3 years
	£'000	£'000	£'000	£'000
Investment income receivable	2,289	4,840	7,129	5,426
Amounts receivable in respect of interest accrued on investments sold, purchased or revalued	112	(293)	(181)	246
	<u>2,401</u>	<u>4,547</u>	<u>6,948</u>	<u>5,672</u>
	2000 account			1999 account
	after 1 year	change in calendar year	after 2 years	after 2 years
	£'000	£'000	£'000	£'000
Investment income receivable	453	2,421	2,874	2,289
Amounts receivable in respect of interest accrued on investments sold, purchased or revalued	15	(131)	(116)	112
	<u>468</u>	<u>2,290</u>	<u>2,758</u>	<u>2,401</u>
			2001 account after 1 year	2000 account after 1 year
			£'000	£'000
Investment income receivable			1,277	453
Amounts receivable in respect of interest accrued on investments sold, purchased or revalued			(57)	15
			<u>1,220</u>	<u>468</u>

NOTES TO THE ACCOUNTS

8 CALENDAR YEAR INVESTMENT YIELD

	2001	2000
	£'000	£'000
Average monthly syndicate funds:		
£	23,933	17,275
US\$	183,039	133,787
Can\$	15,198	12,217
All in £	155,853	112,519
Aggregate gross investment return for the calendar year:		
£	1,399	1,190
US\$	10,185	9,450
Can\$	805	715
All in £	8,722	7,852
Calendar year investment yield:		
£	5.84%	6.89%
US\$	5.56%	7.06%
Can\$	5.29%	5.86%
All in £	5.60%	6.98%

9 FINANCIAL INVESTMENTS

	2001		2000	
	Cost	Market Value	Cost	Market Value
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	139,438	139,743	105,778	107,026

NOTES TO THE ACCOUNTS

10 DEBTORS

	2001	2000
Amounts falling due within one year	£'000	£'000
Arising out of direct insurance operations	3,033	2,082
Arising out of reinsurance operations	31,366	14,408
Brokers' balances	34,399	16,490
Accrued profit commission	–	2,406
Amount due from Managing Agent	404	115
Other debtors	4,140	1,457
	<u>38,943</u>	<u>20,468</u>
Amounts falling due after one year		
Arising out of reinsurance operations	–	1
Brokers' balances	–	1
Other debtors	73	42
	<u>73</u>	<u>43</u>
Total debtors	<u>39,016</u>	<u>20,511</u>

Included within other debtors falling due within one year is an amount of £3,461,885 due on a forward currency contract, with a value date of 28 June 2002, for the sale of US\$5,000,000.

Provision for Bad Debts

A provision for bad debt of £1,303,787 has been charged in arriving at the balance on technical account for the 1999 year of account, £5,834 for the 2000 year of account and £1,369,786 for the 2001 year of account.

Accrued Profit Commission

The Syndicate entered into a whole account stop loss reinsurance contract for the 1996 year of account. A deposit premium of £3,538,870 was based on the Syndicate's estimated Net Premium Income for the 1996 year of account. The nature of the contract, in the opinion of the Active Underwriter, is not in substance that of an investment and accordingly the provisions of FRS5 have not been applied.

The contract, subject to its terms, conditions and limits, indemnifies the Syndicate for the ultimate net loss incurred within an overall limit above an excess point under all business attaching (whether signed or by virtue of inception date accounted) to the syndicates 1996 year of account.

The 1996 year of account contract was commuted during 2001 and profit commission of £2,280,461 was realised.

NOTES TO THE ACCOUNTS

11 OVERSEAS DEPOSITS

	2001	2000
	£'000	£'000
Illinois deposit	9,549	8,396
Kentucky deposit	447	212
South African deposit	954	1,411
Japanese deposit	387	39
Australian deposit	2,921	968
Joint Asset Trust Fund	6,292	5,642
Additional Securities Limited	2,165	1,970
Lloyd's Canadian Margin Fund	960	–
	<u>23,675</u>	<u>18,638</u>

The Illinois and Kentucky deposits are calculated by reference to the Syndicate's premium income and estimated exposure to outstanding liabilities arising from business written in the States of Illinois and Kentucky, and are required to enable the syndicate to underwrite business arising in those states.

The South African deposits are represented by the Lloyd's South African Transitional Trust Deed (LSATTD) deposit of £326,236 (2000: £676,352) covering business underwritten in 1998 and prior years and the Lloyd's South African Trust Deed (LSATD) deposit of £628,250 (2000: £734,584) for 1999 and post business.

The Japanese deposits represent the statutory deposit required in Japan and a collateral account for letter of credit against liabilities arising from business underwritten in the country.

The Australian deposits are represented by the Lloyd's Australian Trust Fund deposit of £2,755,983 (2000: £862,310) and the Lloyd's Joint Asset Trust Fund deposit of £164,845 (2000: £105,416). The Lloyd's Australian Trust Fund deposit is to enable the Syndicate to underwrite business arising in Australia and the contribution to the fund is calculated by reference to the premium income and estimated exposure to outstanding liabilities arising from business written in Australia. The Lloyd's Australian Joint Asset Trust Fund deposit is an interim fund for business written between 1993 and 1998 and is determined by reference to the Syndicate's 1998 and prior estimated net liabilities in Australia.

The Joint Asset Trust Funds are calculated by reference to the Syndicate's United States dollar reinsurance and surplus lines premium income and is required to enable Names to write certain reinsurance and surplus lines business in the USA.

The deposit with Additional Securities Limited is interest bearing and is determined by reference to the Syndicate's premium income arising from business written in Switzerland, Singapore and certain other overseas countries and is required to enable the Syndicate to underwrite business arising in those countries.

The Lloyd's Canadian Margin Fund represents a basic margin of 15% of estimated net liabilities as at 30 September 2001. The fund is revalued on a quarterly basis in order to meet the requirements of the Canadian Office of the Superintendent of Financial Institutions and to enable the syndicate to underwrite business arising in Canada.

NOTES TO THE ACCOUNTS

12 PROFIT OF 1999 (1998) CLOSED YEAR OF ACCOUNT

	2001	2000
	£'000	£'000
Closed year of account profit	4,231	2,390
Personal expenses	(1,867)	(2,152)
Profit commission	(492)	(149)
Members' Agents' fees – funded by the Syndicate	(406)	(369)
	<u>1,466</u>	<u>(280)</u>

Closed year profit analysed by Trust Fund:

		2001	2000
		£'000	£'000
Sterling trust fund	£	(3,376)	(4,478)
US dollar trust fund	US\$	11,920	9,497
Canadian dollar trust fund	CAN\$	(1,292)	1,106
All expressed in sterling	All in £	4,231	2,390

The sterling equivalent of the closed year profit expected to be distributed in currency is £4,231,124.

13 OPEN YEAR OF ACCOUNT BALANCES

	2001	2000
	£'000	£'000
Open year of account after two years:		
2000 (1999) year of account balance	131,941	105,652
Personal expenses	(2,316)	(1,846)
Members' Agents' fees – funded by the Syndicate	(632)	(406)
	<u>128,993</u>	<u>103,400</u>
Open year of account after one year:		
2001 (2000) year of account balance	77,335	30,985
Personal expenses	(3,446)	(2,319)
Members' Agents' fees – funded by the Syndicate	(1,284)	(633)
	<u>72,605</u>	<u>28,033</u>

NOTES TO THE ACCOUNTS

14 CREDITORS

	2001	2000
Amounts falling due within one year	£'000	£'000
Arising out of direct insurance operations	55	46
Arising out of reinsurance operations	19,491	18,913
Brokers' balances	19,546	18,959
Profit commission payable	492	149
Amount due to Stockbrokers	–	9,438
Amounts owed to credit institutions	3,620	13
Other creditors	70	4
	<u>23,728</u>	<u>28,563</u>

There have been no material borrowings in the year.

Included within amount owed to credit institutions is an amount of £3,428,527, representing US\$5,000,000 payable on a forward currency contract, with a value date of 28 June 2002, for the purchase of £3,461,885.

15 ACCRUALS AND DEFERRED INCOME

Included within accruals and deferred income is an amount of £4,535,938 which relates to a whole account stop loss recovery on the 1998 year of account. The recovery will be off-set against paid claims on the 1998 year of account in future years.

16 RATES OF EXCHANGE FOR TRANSLATION INTO STERLING

Rates ruling at 31 December:	2001	2000
United States dollars	1.46	1.49
Canadian dollars	2.36	2.24

17 ILLUSTRATIVE SHARES

The Syndicate's allocated capacity for the following underwriting years equate to the following percentage participations for a Name with an illustrative £10,000 share:

	Syndicate allocated capacity	Illustrative £10,000 share
	£'000	%
2001	215,317	0.004644
2000	125,186	0.007988
1999	94,699	0.010560

NOTES TO THE ACCOUNTS

18 DISCLOSURE OF INTERESTS

N H Furlonge has a minority shareholding in D3, a company that provides Human Resource services and advice to Beazley Furlonge Limited. During 2001, £92,816 was paid to D3 in respect of these services.

The Syndicate paid Alliance Capital Limited £136,872 in 2001 (2000 – £110,933) in respect of the investment services provided. George Blunden, a director of Beazley Furlonge Limited, is an executive director of Alliance Capital Limited.

There are no further interests to be disclosed in accordance with the requirements of the Syndicate Accounting Byelaw (No. 18 of 1994).

19 CONSORTIUM UNDERWRITING

The Syndicate participated in the following consortiums during the period under review:

a) Medical Expense Consortium

Syndicate 623 participated in the medical expense consortium for the 1998 and 1999 years of account, led by Syndicate 362, Harvey-Bowring, which writes medical expenses business principally emanating from the USA.

The risks were allocated in accordance with an agreed percentage allocation. No fees or commissions have been received or are receivable in respect of this participation.

b) Swiss Consortium

Syndicate 623 leads the Swiss Consortium which writes property and personal accident business through a number of binding authorities in Switzerland.

The risks were allocated in accordance with an agreed percentage allocation. Beazley Furlonge Limited recharged expenses amounting to £136,573 during 2001 (2000 – £119,555) to other consortium members. No fees or commissions have been received or are receivable in respect of this participation.

c) Marham Satellite Consortium

Syndicate 623 supported the Marham consortium lead by Simon Clapham of Wren Syndicate 800 for the 1999 year of account. The consortium covers a worldwide portfolio of satellite launch and life risks emanating mainly from the USA, France and Russia.

The risks are allocated in accordance with an agreed percentage allocation. The Syndicate was charged management fees of £130,000 by Marham and technical survey fees of £25,188 during 1999.

d) CLM Marine Liability Consortium

With effect from 1 May 1999, Syndicate 623 participates on the marine liability consortium lead by Robert Forster of CLM, Syndicate 575. The consortium writes a broad book of marine third party liabilities. The geographical spread is worldwide excluding purely USA domiciled business concentrating on the UK and continental Europe. Our participation ceased at the end of 2000.

The risks are allocated in accordance with an agreed percentage allocation. The consortium is subject to a management fee of 12% of net premium.

NOTES TO THE ACCOUNTS

19 CONSORTIUM UNDERWRITING (Continued)

The premiums accepted by the Syndicate for the above consortiums contributed the following as a percentage of total premium income:

	1999 at 36 months	2000 at 24 months	2001 at 12 months
	%	%	%
Medical Expenses Consortium	0.4	0.0	0.0
Swiss Consortium	0.7	0.8	0.4
Marine Satellite Consortium	2.1	0.0	0.0
Marine CLM Liability Consortium	0.3	0.2	0.0

20 SERVICE COMPANIES

The Managing Agency holds a 20.8% equity interest on behalf of the Syndicate in Asia Pacific Underwriting Agency Limited (APUA) which writes E&O, D&O and fidelity business in Hong Kong and the Far East.

The premiums accepted by the Syndicate from APUA contributed the following as a percentage of total premium income:

	1999 at 36 months	2000 at 24 months	2001 at 12 months
	%	%	%
Premium Income	0.3	0.3	0.3

21 SEGMENTAL INFORMATION

	Direct business			Reinsurance acceptance		Total	
	Notes	Fire & other damage to property	Third party liability	Other	Fire & other damage to property	Other reinsurance	
1999 closed year of account after three years		£'000	£'000	£'000	£'000	£'000	
Business in respect of risks located in:							
United Kingdom		5,533	7,293	5,453	939	34	19,252
Other EC member countries		2,938	3,873	2,896	545	20	10,272
Other countries		22,788	30,036	22,460	12,131	436	87,850
Gross premiums written	1	31,259	41,202	30,809	13,615	489	117,374
Gross claims paid		34,418	26,462	33,993	4,598	37	99,508
Gross operating expenses	2	1,402	1,848	1,382	611	22	5,264
Reinsurance balance	3	1,849	1,548	(2,523)	(1,418)	(5,150)	(5,694)
Average rate of commission and brokerage		21%	16%	21%	13%	17%	18%

NOTES TO THE ACCOUNTS

21 SEGMENTAL INFORMATION (continued)

	Direct business			Reinsurance acceptance		Total	
	Notes	Fire & other	Third	Other	Fire & other		Other
		damage to property	party liability		damage to property		
2000 open year of account after two years		£'000	£'000	£'000	£'000	£'000	
Business in respect of risks located in:							
United Kingdom		8,893	9,543	6,153	1,586	44	26,219
Other EC member countries		3,618	3,883	2,503	401	11	10,417
Other countries		31,083	33,355	21,505	16,240	446	102,629
Gross premiums written	1	43,595	46,781	30,161	18,227	500	139,264
Gross claims paid		22,484	4,842	15,125	1,957	85	44,493
Gross operating expenses	2	1,782	1,912	1,233	745	20	5,692
Reinsurance balance	3	(14,357)	(11,812)	(11,835)	233	(4,030)	(41,801)
Average rate of commission and brokerage		19%	19%	18%	24%	13%	19%

	Direct business			Reinsurance acceptance		Total	
	Notes	Fire & other	Third	Other	Fire & other		Other
		damage to property	party liability		damage to property		
2001 open year of account after one year		£'000	£'000	£'000	£'000	£'000	
Business in respect of risks Located in:							
United Kingdom		9,851	7,322	6,560	3,007	84	26,824
Other EC member countries		3,941	2,929	2,624	1,504	42	11,040
Other countries		35,465	26,361	23,616	25,562	710	111,714
Gross premiums written	1	49,257	36,612	32,800	30,073	836	149,578
Gross claims paid		4,944	962	4,610	6,487	0	17,003
Gross operating expenses	2	2,399	1,783	1,597	1,465	41	7,285
Reinsurance balance	3	(19,330)	(18,304)	(6,659)	(297)	(4,697)	(49,287)
Average rate of commission and brokerage		28%	26%	31%	18%	18%	26%

Notes:

1. Gross premiums written have been analysed by reference to the situs of the risk.
2. Gross operating expenses have been allocated to class groups in proportion to their respective gross premium incomes.
3. The reinsurance balance comprises reinsurance recoveries received less outward reinsurance premiums paid.

SEVEN YEAR SUMMARY

**SEVEN YEAR SUMMARY OF CLOSED YEAR RESULTS
at 31 December 2000**

	1999	1998	1997	1996	1995	1994	1993
Syndicate allocated capacity – £000's	94,699	94,690	89,874	90,013	91,654	92,317	63,218
Capacity utilised	124%	88%	72%	71%	78%	65%	87%
Number of underwriting members	827	830	958	978	1,076	1,196	2,393
Aggregate net premiums – £000's	70,813	56,589	44,489	44,062	48,315	40,222	37,233
Net capacity utilised	75%	60%	50%	49%	53%	44%	59%
Underwriting profit as a percentage of gross premiums	2.1%	2.5%	6.7%	6.9%	17.0%	18.0%	29.5%
Results for an illustrative £10,000 share	£	£	£	£	£	£	£
Gross premiums	12,394	8,829	7,201	7,135	7,785	6,500	8,653
Net premiums	7,478	5,976	4,950	4,895	5,271	4,357	5,890
Reinsurance to close from an earlier account	7,619	6,606	5,799	4,218	2,632	1,303	4,172
Net claims	(6,192)	(4,829)	(3,623)	(2,950)	(2,524)	(1,924)	(3,315)
Reinsurance to close the year of account	(8,647)	(7,536)	(6,644)	(5,674)	(4,162)	(2,564)	(2,006)
Premium payable to Equitas	–	–	–	–	–	–	(2,190)
Underwriting profit	258	217	482	489	1,217	1,172	2,551
Profit/(loss) on exchange	(31)	3	21	2	9	20	40
Syndicate operating expenses	(556)	(582)	(597)	(478)	(414)	(391)	(469)
Balance on technical account	(329)	(362)	(94)	13	812	801	2,122
Gross investment return	776	614	430	505	504	334	556
Profit before personal expenses	447	252	336	518	1,316	1,135	2,678
Illustrative personal expenses							
Illustrative personal expenses	(195)	(224)	(199)	(179)	(353)	(350)	(342)
Managing Agent's profit commission	(52)	(16)	(32)	(51)	(134)	(110)	(352)
Profit after illustrative profit commission and personal expenses	200	12	105	288	829	675	1,984

Note:

1. The illustrative profit commission and personal expenses are estimates of amounts which might be charged on an illustrative share of £10,000. The agency agreements for 1991 and subsequent years of account only provide for the deduction of fees and profit commission on behalf of the Managing Agent.
2. The effect of any minimum charges on personal expenses or deficit clauses on profit commission have been ignored.
3. The illustrative personal expenses for 1993 Accounts include the special central fund levy of 1.66% of the capacity. The special contribution to the central fund for the 1994, 1995 and 1996 account has also been included.
4. For the 1996 and post years of account, internal claims settlement expenses has been included in 'Net Claims'. For 1995 and prior years of accounts, claims settlement costs are included in 'Syndicate operating expenses' as the directors do not have sufficient information to make a reasonable estimate of the amounts to be reclassified.

MANAGING AGENT – ADDITIONAL INFORMATION

DIRECTORS

The directors of Beazley Furlonge Limited during the period covered by this Annual Report and their direct participations on Syndicate 623 were as follows:

	1999	2000	2001	2002
	£	£	£	£
Andrew F Beazley (Active Underwriter)	–	–	1,000,000	1,100,000
Nicholas H Furlonge (Deputy Underwriter)	–	–	–	–
Jonathan G Gray	–	–	–	–
Neil P Maidment	–	–	–	–
Arthur R Manners	–	–	375,000	375,000
Johnny G Rowell	–	–	1,000,000	1,000,000
George P Blunden (Non-Executive)	–	–	–	–
Joseph D Sargent (Non-Executive Chairman)	94,950	–	600,000	600,000
Kevin J McHugh (resigned 13 March 2001)	–	–	–	–
Thomas F Sullivan (resigned 15 March 2001)	–	–	–	–

For the 1998 and 1999 years of account the direct participations were on a unlimited liability basis. For the 2001 and 2002 years of account the participation changed to a limited liability basis.

George P Blunden, Kevin J McHugh and Thomas F Sullivan are Annual Subscribers.

None of the directors has a personal stop loss policy relating to the years 1999 to 2001.

Indirect limited liability participation	1999	2000	2001	2002
	£	£	£	£
Joseph D Sargent (Non-Executive Chairman)	27,783	55,956	36,693	147,573
Andrew F Beazley (Active Underwriter)	766,479	1,174,025	1,012,028	4,070,209
Nicholas H Furlonge (Deputy Underwriter)	278,664	561,203	368,009	1,480,072
George P Blunden (Non-Executive)	8,360	16,835	11,004	44,400
Jonathan G Gray	383,083	771,497	505,909	2,034,683
Neil P Maidment	334,397	673,445	441,612	1,776,089
Arthur R Manners	111,466	224,484	147,205	592,035
Johnny G Rowell	473,729	954,049	625,618	2,516,133

The above directors who participate on the Syndicate on an indirect limited liability basis do so through their fully diluted beneficial shareholdings in Beazley Furlonge Group Limited which has an interest in Beazley Dedicated Limited.

Joseph D Sargent was, until 1992, Chairman and Chief Executive of Conning & Company, a US investment firm specialising in the insurance industry where he worked for over 40 years. He developed and actively led the firm's insurance consulting practice and more recently he has been closely involved with the development of four major insurance entities.

George P Blunden is a Director of Alliance Capital Limited and previously was Chief Executive of Union Plc.

Thomas F Sullivan and Kevin McHugh are Directors of Specialty 004 Limited and Specialty 005 Limited, investment companies of Aon Group UK Limited.

MANAGING AGENT – ADDITIONAL INFORMATION

Active Underwriter

Andrew F Beazley is the active underwriter of the Syndicate. For the 1999 and 2000 years of account, Andrew Beazley resigned his membership of Lloyd's. For the 2001 year of account he recommenced underwriting through a 'NameCo' on a limited liability basis solely on Syndicate 623.

Related Parties Bylaw

Thomas F Sullivan

T F Sullivan was a Non-Executive Director of Kingsmead Underwriting Agency Limited (KUAL) until 16 November 2000. He continues to be a Non-Executive Director of SVB Holdings Plc (parent company of SVB Syndicates Limited (SVB) and he was a director of Jago Capital Limited (JCL) and Jago Managing Agency Limited (JMAL)). Any business transacted between the Syndicate and any syndicate managed by KUAL, SVB and JMAL was conducted on an arm's length basis and at normal commercial terms. T F Sullivan resigned from the board of Beazley Furlonge Limited on 15 March 2001.

Kevin J McHugh

K J McHugh is a Non-Executive Director of SVB Syndicates Limited and SVB Finance Limited and was the Non-Executive Chairman of Jago Capital Limited (JCL) and Jago Dedicated Limited and a Non-Executive Director of Jago Managing Agency Limited (JMAL) until 30 June 2000 when he resigned from JCL and JMAL. Business transacted between the Syndicate and any Syndicate on which JCL has underwritten, or any Syndicate managed by SVB, was conducted on an arm's length basis and at normal commercial terms. K J McHugh resigned from the board of Beazley Furlonge Limited on 13 March 2001.

Aon Corporation

In June 1997, a subsidiary of Aon Corporation was the lead investor in the acquisition of a minority interest in Beazley Furlonge Holdings Limited, the parent company of Beazley Furlonge Limited. In the year ended 31 December 2001 the group companies of Aon Corporation placed premiums of £36.5m (2000: £24.8m) with Syndicate 623. Any business conducted between Syndicate 623 and Aon Corporation was conducted on an arm's length basis and at normal commercial terms.

Other Interests

The equity interest held by Aon Corporation in Beazley Furlonge Holdings Limited was purchased in March 2001 by Beazley Furlonge Group Limited, the new holding company for the Beazley Group that is wholly owned by the directors and staff.

The agency has taken shareholdings in businesses in order to provide and maintain underwriting opportunities for Syndicate 623. The shares of the companies are held in trust for the benefit of the Syndicate's Names from time to time participating in the underwriting. The costs associated with such projects have or will be charged to the Syndicate, whilst in turn any income or profits accruing are credited to the Syndicate.

MANAGING AGENT – ADDITIONAL INFORMATION

The details are:

Enam Management Company, Inc.

On 7 January 1992 Beazley Furlonge Limited acquired one share in a non-profit making company incorporated in the USA known as Enam Management Company, Inc. The company is owned 75% by Lloyd's Managing Agents and 25% by R K Carvill (International Holdings) Limited. Enam Management Companies, Inc. is not involved in any form of risk carrying and is a vehicle designed to bring together markets which may be interested in specialty programmes. It has the object of bringing additional business into Lloyd's by reducing the acquisition costs.

APUA

Beazley Furlonge Limited holds 75,000 shares representing a 20.8% equity interest in Asia Pacific Underwriting Agency Limited (APUA). APUA is incorporated in Hong Kong and was established to assist in accessing business in Hong Kong and the Far East. A F Beazley and N P Maidment are executive directors of APUA and neither received any remuneration nor other benefit for acting as a director of APUA.

Excaliber

The agency holds a 33.3% interest in the trademark 'Excaliber'. This trademark is used for the marketing of certain insurance policies through Lloyd's brokers.

Stock Lending

No premium trust fund investments were lent pursuant to any stock lending arrangements.

Syndicate Expenses

The policy of Beazley Furlonge Limited as regards the charging of syndicate expenses complies with the Code of Practice for Underwriting Agencies approved by the Council of Lloyd's.

United Kingdom Income Tax

Names are responsible for making any necessary payments of Income Tax based on their overall underwriting profit for all their syndicates. The results that are reported in these accounts are therefore shown gross of income tax.

Errors and Omissions Insurance

Beazley Furlonge Limited has held an errors and omissions policy since the 14 October 1998 with a limit of indemnity of £5m. This Policy was renewed on 14 October 2001.

Syndicate Allocated Capacity

The Syndicate's allocated capacity for the 2002 year of account is £325,333,441.

No agent provided capacity to the Syndicate in excess of 20% for the 1999 year of account. Hampden Underwriting Agency Limited provided 28.1% of the capacity for the 2002 year of account and 30% for the 2001 year of the account.

Reinsurance Résumés

Reinsurance résumés have been approved by the Board and are available for inspection at One Aldgate, London EC3N 1AA.

MANAGING AGENT – ADDITIONAL INFORMATION

Sub-contracted Functions

The directors have sub-contracted the following functions during the period covered by this report.

- | | |
|--|-------------------------------------|
| i) Administrative and accounting functions | Axiom Underwriting Services Limited |
| ii) Management of investments | Alliance Capital Limited |
| iii) Data entry | Xchanging In-sure Services Limited |
| iv) Network support | Lanz Limited |

Accounting Records

The accounting records of the Syndicate are held at Beazley Furlonge Limited, One Aldgate, London EC3N 1AA and at Axiom Underwriting Services Limited, Maritime House, 1 Linton Road, Barking, Essex IG11 8GW.

Syndicate Auditors

Mazars Neville Russell are the Syndicate auditors for the 2001 Annual Report and it is intended that they are re-appointed for the 2002 audit.

MANAGING AGENT – ADDITIONAL INFORMATION

MANAGING AGENT – KEY FINANCIAL INFORMATION

	2001	2000	1999	1998	1997
	£'000	£'000	£'000	£'000	£'000
Gross capacity managed	215,317	125,186	94,699	94,690	89,874
Income:					
Managing Agent's fees	1,293	752	569	472	450
Profit commission	149	292	458	1,223	564
Total fees from the managed syndicate	1,442	1,044	1,027	1,695	1,014
Other	30	97	74	39	31
	1,472	1,141	1,101	1,734	1,045
Total agency expenses	7,019	4,652	4,067	4,259	3,434
Less: expenses recharged to the Syndicate	(5,581)	(3,848)	(3,280)	(3,126)	(2,836)
	1,438	804	787	1,133	598
Profit before taxation	34	337	314	601	447
Profit margin before profit commission and related expenses	(5.3%)	23.8%	18.9%	6.9%	6.1%
Total operating expenses as a percentage of total managed capacity	3.3%	3.7%	4.3%	4.5%	3.8%
Total employment costs incurred	5,524	3,709	3,097	2,703	2,523
Less: amounts recharged to the managed syndicate	(5,255)	(3,482)	(2,898)	(2,465)	(2,313)
Employment costs retained by the Managing Agent	269	227	199	238	210
Net assets of the Managing Agent	653	735	606	434	427

MANAGING AGENT – ADDITIONAL INFORMATION

MANAGING AGENT – KEY FINANCIAL INFORMATION

Syndicate performance	1999	1998	1997	1996
	£'000	£'000	£'000	£'000
Profit before personal expenses attributable to:				
Working Members employed by				
Beazley Furlonge Limited	42	24	30	47
Other working Members	169	96	241	420
External Members	1,735	1,099	1,964	3,268
Corporate Members	2,285	1,171	787	934
	<u>4,231</u>	<u>2,390</u>	<u>3,022</u>	<u>4,669</u>
	2002	2001	2000	1999
	%	%	%	%
Syndicate allocated capacity attributable to:				
Working Members employed by				
Beazley Furlonge Limited	5	3	4	1
Other working Members	3	3	3	4
External Members	38	40	38	41
Corporate Members	54	54	55	54
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

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