

Syndicate 623 at Lloyd's
Annual Report 2004

In all that we do, we go further

We are a leading specialist insurance business providing a wide range of services worldwide to a substantial and diversified client base.

Our success has been founded on our commitment to continually find ways in which we can go further for all our clients. We challenge traditional attitudes and constraints within our markets, constantly developing our products and services to deliver truly innovative solutions.

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Syndicate 623

Summary financial information

| Syndicate 623 – Summary financial information | 2002 | 2001 | 2000 | 1999 | 1998 |
|--|-------------|-------------|-------------|-------------|-------------|
| Allocated capacity (£000's) | 325,000 | 215,317 | 125,186 | 94,699 | 94,690 |
| Gross premium written – net of brokerage (£000's) | 279,788 | 235,623 | 135,332 | 117,374 | 83,605 |
| Capacity Utilisation | 86% | 109% | 108% | 124% | 88% |
| Aggregate Net Premiums (£000's) | 181,641 | 143,785 | 79,102 | 70,813 | 56,589 |
| Net Capacity Utilised | 56% | 67% | 63% | 75% | 60% |
| Net Profit on an illustrative share | 13.5% | 0.6% | 0.6% | 2.0% | 0.1% |

Note: The summary financial information should be read in conjunction with the full annual report. The capacity utilisation here relates purely to syndicate 623 and excludes the qualifying quota share arrangements. The amounts are taken from the seven year summary and are stated at year end rates, not premium monitoring rates.

Underwriter's report

Closed year

After a tough 2001 we saw rate increases across all of our lines of business in 2002. This led to all four businesses Specialty Lines, Property, Marine and Reinsurance contributing to the 2002 result.

Our position was helped by increased levels of new business and within the Specialty Lines market in particular, reduced competition and an increased focus on underwriting for profit.

The two qualifying quota shares of £78m and £45m with Berkshire Hathaway and Munich Re respectively enabled us to write additional business during the year. They also provided the additional benefit of shared syndicate expenses and profit commission payable to the capital providers of syndicate 623 from both of these arrangements.

Reserves from the prior years are proving strong overall and whilst we are still seeing movements in reserves in the more recently closed years, we saw no deterioration in total.

2003

With our increased total managed capacity of £660m we were able to take advantage of further rate increases and more new business - a good time to grow in excellent market conditions. Our capacity was structured such that syndicate 623 provided 50% of the capacity through third party capital and syndicate 2623 provided the remaining capacity through Beazley Group plc. The 2003 year of account has been written in parallel between the two syndicates.

Rates increased across all lines of business although the rate of increase slowed within the Property department and the Reinsurance department. However within the Specialty Lines department the average rate increases achieved was 21%.

We grew our business through the recruitment of experienced energy and cargo underwriters, both of whom will make a contribution to the 2003 result.

We have narrowed our range of return on stamp capacity from between 8% - 15% as reported last year to a position of 10% - 15%.

2004

We increased our managed capacity by 11% to £740m with syndicate 623 providing the capital for £343m (46%) and the Beazley Group plc through syndicate 2623 providing the capital for the remaining £397m (54%).

Following our recruitment of the cargo and energy teams who contributed a full year in 2004, we were also able to add an engineering team who joined us in October 2004.

Rate increases continued across most lines of our Specialty Lines business which showed an average rate increase of 4% on renewal business. Within Reinsurance and Marine rates were generally stable whilst in the Property department rates were down 5% overall. We experienced rate reductions in the energy and catastrophe reinsurance areas. However the impact of four hurricanes in the third quarter stalled these reductions.

Profits have been impacted from our exposure to the four hurricanes that made landfall in Florida during the second half of 2004. However, despite the impact our 2004 year of account has started well and at this early stage we expect the return the stamp capacity of between 3% and 10%.

During 2004 Beazley Group set up its own underwriting company based in Hartford, Connecticut, with an office in Ponte Vedra, Florida and hired key underwriting staff who will underwrite on behalf of both the group's Lloyd's syndicates and a new licensed insurance company. The key aims of this initiative are to attract business within our Specialty Lines and Property sectors that does not currently come to Lloyd's and to increase our share of the middle market and small customers. We already trade some of this business and see it as less volatile on both rates and loss ratios compared to the equivalent large risk business.

Outlook

With our portfolio of business including the addition of the engineering team and the US sourced business, the outlook for 2005 is positive.

Total managed capacity for Beazley is at £742m for 2005. Syndicate 623 will underwrite £220m (30%) and the Beazley Group plc through syndicate 2623, the remaining £522m (70%). Within the Specialty Lines account, we do not expect the rate increases achieved in recent years to continue and are projecting a broadly flat rate environment for the year. We are continuing to recruit high calibre talent for claims management, as a core focus for us is the better management of claims.

Within the Property department we are expecting further downward pressure on large non catastrophe exposed commercial property which will contribute to a further reduction in premiums in the open market corporate account. The homeowners and jewellers block accounts should continue to maintain stability in 2005 and we expect to grow our Florida homeowners account through our newly formed US based managing general agent.

The aim for the Reinsurance team for 2005 is to target development particularly in Europe, thus, increasing the portfolio efficiency. The 2005 renewals stayed relatively firm with limited easing in market conditions in general, the exception being accounts which suffered loss activity in 2004 where rates have increased.

The Marine account has continued to grow over the past year and has broadened its spread of risk. With the energy and cargo accounts coming to fruition, the book has gained further balance and the team as a whole has enhanced its position as market leaders. During 2005 it is our aim to further capitalise upon current positive underwriting positions in the energy market and to maintain our excellent position elsewhere. We have recruited a UK cargo underwriter at the beginning of 2005 and expect to build this business profitably.

The energy insurance market during 2004 suffered a number of large catastrophe losses. Through selective underwriting the syndicate has fared well in relation to the market and we expect to benefit from the resultant strengthening market conditions in 2005.

Reinsurance

The syndicate purchases comprehensive reinsurance covering all the main business divisions. 2004 again proved a difficult year to buy protections and we were pleased with the final outcome.

Retention levels are constantly evaluated and in 2004 we opted to reduce the amount of risk excess protection purchased for our speciality lines account. The amount of proportional cover remains similar.

The syndicate's exposure to catastrophe losses is regularly monitored and reinsurance protections are purchased in accordance with loss parameters set by the board. Whilst our catastrophe programme caters for most events, it is not 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 also 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:

| | 2002 % | 2003 % | 2004 % |
|------------------------------|-----------|-----------|-----------|
| Lloyd's | 19.9 | 23.0 | 20.7 |
| FSA authorised companies | 58.0 | 53.1 | 56.7 |
| Non-FSA authorised companies | 22.1 | 23.9 | 22.6 |
| Companies within the EC | 93.0 | 83.4 | 87.8 |

The non-FSA authorised companies from which we purchase reinsurance comprise non-UK domiciled insurance companies, all of which have been vetted by the Reinsurance 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:

| | £m | 2002 % | £m | 2003 % | £m | 2004 % |
|-------------|-------|-----------|-------|-----------|-------|-----------|
| Capacity | 325.0 | | 329.6 | | 343.7 | |
| @ 12 months | 231.8 | 71.3 | 222.0 | 67.4 | 219.5 | 63.8 |
| @ 24 months | 335.3 | 103.2 | 305.7 | 92.7 | - | - |
| @ 36 months | 348.0 | 107.1 | - | - | - | - |

Premium income limits and utilisation

Including the qualifying quota share arrangement in 2002 the capacity utilisation at premium monitoring rates of exchange was as follows:

| | 2002 £m | 2003 £m | 2004 £m |
|--|------------|------------|------------|
| Syndicate allocated capacity (excluding QQS) | 325.0 | 329.6 | 343.7 |
| Qualifying quote share | 123.0 | - | - |
| Total Capacity | 448.0 | 329.6 | 343.7 |
| Estimated ultimate gross premium income at 36 months | 403.2 | 319.6 | 328.0 |
| Net Utilisation | 90.0% | 97.0% | 95.4% |
| Rates of exchange: | | | |
| US dollar | 1.55 | 1.50 | 1.56 |
| Canadian dollar | 2.27 | 2.28 | 2.38 |
| Euro | | | 1.55 |

Underwriter's report continued

The syndicate had in place two qualifying quota share agreements covering the 2002 year of account. These provided the additional capacity for the syndicate to write gross income in excess of its stamp capacity.

Your attention is drawn to the note "basis of preparation" in the managing agent's report that describes the method of disclosure in the annual report in respect of the 2002 qualifying quota share arrangement with Berkshire Hathaway.

Net premium income

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

| | 2002 | | 2003 | | 2004 | |
|-------------|-------|------|-------|------|-------|------|
| | £m | % | £m | % | £m | % |
| Capacity | 325.0 | | 329.6 | | 343.7 | |
| @ 12 months | 127.0 | 39.1 | 161.6 | 49.0 | 160.5 | 46.7 |
| @ 24 months | 214.2 | 65.9 | 233.4 | 70.8 | | |
| @ 36 months | 218.7 | 67.3 | – | – | | |

Incurring loss ratios at audite rates of exchange

| | 2002 | | 2003 | | 2004 | |
|-------------|---------|-------|---------|-------|---------|-------|
| | Gross % | Net % | Gross % | Net % | Gross % | Net % |
| @ 12 months | 12.01 | 17.71 | 8.82 | 11.55 | 20.48 | 21.48 |
| @ 24 months | 27.66 | 32.40 | 20.55 | 24.77 | – | – |
| @ 36 months | 36.85 | 41.25 | – | – | – | – |

Illinois licenced business

The arrangements for writing Illinois licenced business require licenced members i.e. currently 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 licenced 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.

Analysis of the account

| | 2002 at 36 mths % | 2003 at 24 mths % | 2004 at 12 mths % |
|-----------------------------|----------------------------------|----------------------------------|----------------------------------|
| Category of business | | | |
| Long tail | 35.49 | 45.56 | 50.15 |
| Short tail | 64.51 | 54.44 | 49.85 |
| | 100.0 | 100.0 | 100.0 |
| Department | | | |
| Specialty Lines | 41.00 | 48.46 | 52.95 |
| Property Group | 32.68 | 26.18 | 20.50 |
| Reinsurance | 13.33 | 11.97 | 14.24 |
| Marine | 12.99 | 13.39 | 12.31 |
| | 100.0 | 100.0 | 100.0 |
| Currency | | | |
| Sterling | 26.53 | 24.00 | 16.48 |
| US Dollars | 70.60 | 72.63 | 76.80 |
| Canadian Dollars | 2.87 | 3.37 | 2.35 |
| Euros | - | - | 4.37 |
| | 100.0 | 100.0 | 100.0 |
| Acceptance | | | |
| Facultative | 53.26 | 60.94 | 67.74 |
| Excess of Loss Treaty | 13.47 | 12.61 | 15.96 |
| Line Slip | 5.63 | 6.46 | 4.76 |
| Binding Authority | 26.06 | 18.83 | 10.92 |
| Proportional Treaty | 1.58 | 1.16 | 0.62 |
| | 100.0 | 100.0 | 100.0 |

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

The syndicate began operating a currency Euro fund for the 2004 year of account. For previous years of account Euros are included within the Sterling balances at the rate ruling at the date of the transaction.

Description of business underwritten

The syndicate's account is underwritten by four departments:

Specialty Lines

The Specialty Lines department is a recognised market leader in many sectors of the global errors and omissions specialty insurance market; underwriting primary and excess business from North America, Europe and around the world.

The team has a proven track record in many challenging areas of insurance, including professional liability, product recall, directors' and officers' liability, political risks, extortion, terrorism, healthcare and employment practices liability. Harnessing the opportunities presented by the interaction between specialist brokers and underwriters is a key feature of the Lloyd's trading environment, and enables the Specialty Lines team to provide effective coverage for a diverse range of clients.

Specialty Lines has focused on writing specialty insurance in selected markets and is an established lead underwriter in many lines. A significant proportion of this business is written in the US excess and surplus lines market and is structured on a claims-made, rather than losses occurring basis. The team aims to provide very high service levels – having the necessary skills and experience to underwrite the risk, negotiate the policy and settle the claims. Considerable time is spent travelling and meeting with clients and their brokers, thereby allowing underwriters a better understanding of the customers' business and exposures.

The Specialty Lines account is underwritten by three teams.

Large risk

This group underwrites the larger, more complex risks on an individual basis. The three principal groups are:

- Professional liability
- Healthcare
- Directors' and officers' liability

Programme and small risks

This team underwrites through the Eazypro electronic trading platform, binding authority contracts and accepts business at the box in Lloyd's. The principal areas of business are:

- Professional liability
- Employment practices liability
- Miscellaneous specialty errors and omissions
- Treaty reinsurance

Political and contingency group

The group underwrites:

- Political risks, being contract frustration/confiscation/expropriation
- Product recall, incorporating accidental and malicious contamination
- Contingency, including kidnap and ransom, non appearance and cancellation
- Terrorism, so called 'stand alone' terrorism for property risks where this coverage has been excluded by property insurers

Property Group

Open market

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 achieved through high underwriting skill levels accompanied by in-house technical support provided by claims, catastrophe modelling and policy wordings specialists.

Binding authorities

Business is accepted through binding authorities which complement the larger facultative risks. These authorities are granted to experienced agents through selective brokers who enable us to access smaller premium business both economically and profitably.

Our tightly managed account is geared to cover small to medium commercial property, international homeowners and motor business with the US, Australia, and South Africa being the key areas of the portfolio.

In order to further improve our access to business in the USA, the group has opened an office in Florida with the first product being high value homeowners insurance. During 2005 further products will be developed.

Homeowners & jewellers block

Beazley works with brokers to develop tailor-made products for individuals and small businesses with specific needs both within the UK and overseas. Facilities for high net worth individuals, Swiss cover holders, expatriate along with jewellers block, fine art and antique dealers are examples of the types of business written.

The homeowners' portfolio is predominantly UK exposed with the majority of risks being accessed through broker facilities by the underwriting team. The product ranges vary from generic to bespoke and underwriters use a geographical database to assist in the assessment of subsidence and flood risk to buildings along with lifestyle data in the calculation of rates for contents cover.

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. The portfolio is predominantly UK but also includes the Far East and Australia.

Swiss account

The Swiss account consists 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.

Engineering

The syndicate recruited a highly respected and experienced engineering and construction team in September 2004 to broaden the product range of the Property Group. The account is predominantly retail business from the UK, Europe and the Middle East with particular emphasis on contractors all risk, erection all risks and operational all risks.

Marine

The marine team provides 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 market conditions. The account has been expanded in recent years with the recruitment of specialist energy and cargo underwriters. For the 2005 year we are further expanding into the UK cargo market with the aim of accessing business through provincial UK brokers rather than the business placed through London.

Vessels hull & machinery

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.

The hull account is not limited to conventional hull all risks but also encompasses other coverages such as limited conditions, total loss interests, builder's risks and mortgagee's interests.

Voyage and tow risks

Beazley is a high profile leader in this specialist niche area. The account is written using close liaison with an approved panel of surveyors. This allows us to grant comprehensive cover which encompasses both hull interests and associated liabilities.

Marine liability

The team has developed a broad portfolio in this area with reinsurance as well as direct business. The Beazley P&I Club which commenced in 2001 provides full form P&I insurance mainly for smaller dry cargo vessels. The majority of the P&I book is written as an adjunct to the hull & machinery account for assureds who place their hull all risks with Beazley.

Cargo and specie

This team arrived towards the end of 2003, bringing with them the majority of an established book of business. We are recognised leaders in the cargo market and are looking to continue to underwrite a traditional broad based cargo portfolio, and expand the specie and fine art book. The team's particular expertise is in the movement of difficult project cargo and all commodities, including oil, meat, seafood, sugar and cereals.

Energy

A specialist underwriting team was recruited in 2003 in order to develop this portfolio. Since that time the account has seen steady growth, particularly with regard to upstream risks where we are a recognised leading underwriter.

Our account is international with the majority of risks written on a direct basis. Where appropriate we have established relationships with direct writers in specific territories and provide reinsurance capacity.

Reinsurance

Property reinsurance

The syndicate has specialised in writing property catastrophe risk excess and pro rata business since its formation in 1986. While market capacity has fluctuated dramatically during the last 18 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 US, the UK, Japan, Continental Europe, Canada and Australasia.

The underwriters employ the most up-to-date software programmes and analytical tools to assist in 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 enables 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 workman compensation accounts. We actively promote the purchase of claims-made policies to supplement traditional occurrence coverage.

AF Beazley

Active Underwriter

24 March 2005

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 2004 premium income limits on syndicate 623 are disclosed on page 34.

Basis of preparation

For the 2002 year of account syndicate 2623 wrote a whole account qualifying quota share of syndicate 623 that inceptioned 1 January 2002. The business written by syndicate 623 was shared on a prorata basis with syndicate 2623 in proportion to the stamp capacity of £325m/£78m for the syndicates 623/2623 respectively.

As a Lloyd's requirement at the 36 month stage separate sets of accounts have been prepared for syndicates 623/2623. In order to fairly reflect the underlying substance of the agreement between the syndicates, amounts shown in these accounts have been split on a prorata basis in the same proportion as the allocation of stamp capacity.

As stated in the underwriters report, the 2003 year of account was written in parallel between syndicates 623 and 2623. The 2004 year of account was written on a split of 46% and 54% attributable to syndicate 623 and syndicate 2623 respectively. Unless otherwise stated, the financial information for this underwriting year relates purely to that share attributable to syndicate 623. Your attention is drawn to the fact that although the same syndicate number has been retained for syndicate 2623 in the 2002, 2003 and 2004 years of account, the former is a qualifying quota share syndicate and the latter a parallel syndicate.

Risk management

Risk and risk management is owned throughout the executive group. The risk management department ensure that the concepts of risk management and the controls are operating effectively. The syndicate manages its risk through a risk management framework of understanding different syndicate risks, establishing an appetite, and reporting and managing the risk appropriately.

A series of committees operates to monitor and manage the risk appetite of each area of business. Categories of risk include underwriting (insurance, reinsurance and claims), operational, credit, liquidity, market, group and business strategy risk.

A material risk to the syndicate operation is the exposure to catastrophic, systemic and underwriting risk. This is managed through day to day controls over the underwriting activities (having underwriting authority limits, exception reporting, regular review of underwriting activities, etc), at an underwriter, class of business and team level.

On a quarterly basis, management conducts peer reviews of each division's income written against budget during the quarter, reviews the loss development for all years of account and re-estimates the profitability of each line of business. Independent consultants are used to provide additional insight and to review underwriting trends. The syndicate actuary also carries out a comprehensive analysis of the quarterly developments to identify unexpected movements and re-estimate the reserves required.

The underwriting and operations committee have responsibility for managing specific business risks, with some of the more granular business process controls being managed through a group of sub-committees (which monitor areas such as binding authority processes, data issues, realistic disaster scenario calculations and claims protocol matters). Each committee derives its authority from the board and reports to it at regular intervals.

Investment report

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

The benchmark set for Alliance Capital Limited (our investment fund managers) for all currencies was the yield on the one year government bond as at 1 January 2004. This benchmark return was bettered in all currencies as value was added by purchasing corporate bonds and then benefiting from the fall in yields during the year.

| | Calendar Year Yield | | Split by Currency | |
|------------------------|---------------------|-----------|-------------------|-----------|
| | 2004 % | 2003 % | 2004 % | 2003 % |
| Sterling | 4.1 | 5.0 | 17.9 | 42.0 |
| US Dollars | 1.4 | 1.4 | 74.3 | 50.0 |
| Canadian Dollars | 2.9 | 3.2 | 6.9 | 8.0 |
| Euros | 1.8 | - | 0.9 | - |
| Overall average return | 1.9 | 2.2 | - | - |

Managing agent's report continued

Syndicate annual general meeting

An annual general meeting of the syndicate will be held on 20 June 2005 at 4.30pm at the offices of Beazley Furlonge Limited, 1 Aldgate, London, EC3N 1AA.

2003 underwriting account – 24 month forecast

| | 623 £'000 |
|---|----------------------------|
| Allocated capacity | 329,619 |
| 2003 open year of account balance as at 31 December 2004 | 244,614 |
| Estimated future liabilities and UW accruals for the 2003 year of account at 31 December 2004 | (195,816) |
| Estimated movement of non-underwriting items during 2005 | 5,714 |
| Estimate of profit before personal expenses for the 2003 year of account after 36 months | 54,512 |
| Estimate of standard personal expenses including profit commission | (16,373) |
| Estimate of profit after personal expenses for the 2003 year of account after 36 months | 38,139 |
| As a percentage of capacity before Members' Agents' fees | 12% |

The estimated range of results is therefore considered to be 10% to 15% 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 the reinsurance to close received from the 2002 account does not vary substantially during the year;
2. the rate of exchange does not vary significantly from 31 December 2004 rates of US\$1.92 and Canadian \$2.30 to the £;
3. the 2003 account closes into the 2004 account at 31 December 2005;
4. the assessment of the liabilities for the 2003 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 2005 to be charged to the 2003 year of account, will continue the pattern of previous years as refined by current budgets.

Further information

Your attention is drawn to pages 34 to 38 of this document which provide further information relating to the managing agency.

By order of the board

D A Horton
Director

24 March 2005

Report of the independent auditors to the members of syndicate 623

We have audited the annual report for the year ended 31 December 2004 which comprises the underwriting accounts, the balance sheet, the seven year summary, the statement of managing agent's responsibilities and related notes. The annual report has been prepared in accordance with Lloyd's syndicate accounting rules, the basis of preparation and the accounting policies set out in notes 1 and 2 thereto.

This report is made solely to the members of the syndicate, as a body, in accordance with Section 14 of the Syndicate Accounting Byelaw (No. 18 of 1994). Our work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept responsibility to anyone other than the syndicate members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditors

As described in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of the annual report. Our responsibility is to audit the annual report in accordance with the relevant requirements established by Lloyd's Byelaws and United Kingdom Auditing Standards.

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 the 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 or 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. This other information comprises only the managing agent's report and the underwriter's report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual report. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes 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 judgments 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 2002 closed year of account.

Mazars LLP

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

24 March 2004

Statement of managing agent's responsibilities

as at 31 December 2004

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 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 insured;
- (b) make judgments 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) following 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 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 the detection of fraud and other irregularities.

2002 underwriting account closed after three years
at 31 December 2004

| | Notes | 2002 account | | | 2001 account after 3 years £'000 |
|---|-------|--------------------------|--|---------------------------|--|
| | | after 2 year £'000 | change in calendar Year £'000 | after 3 years £'000 | |
| Syndicate allocated capacity | | 325,000 | | 325,000 | 215,317 |
| Gross premiums written (net of brokerage) | | 281,700 | (1,912) | 279,788 | 235,623 |
| Outward reinsurance premiums | | 95,090 | 3,057 | 98,147 | 91,838 |
| Net premiums | | 186,610 | (4,969) | 181,641 | 143,785 |
| Reinsurance to close premiums received from earlier years of account | 3 | 137,916 | (5,139) | 132,777 | 83,914 |
| | | 324,526 | (10,108) | 314,418 | 227,699 |
| Gross claims paid | | 41,179 | 90,066 | 131,245 | 182,740 |
| Reinsurers' share | | 4,837 | 51,682 | 56,519 | 100,300 |
| Net claims | | 36,342 | 38,384 | 74,726 | 82,440 |
| Reinsurance premium paid to close the year of account | 4 | – | 174,689 | 174,689 | 137,916 |
| | | 36,342 | 213,073 | 249,415 | 220,356 |
| Balance on technical account before profit on exchange and syndicate operating expenses | | 288,184 | (223,181) | 65,003 | 7,343 |
| Profit/(loss) on exchange | | 507 | (763) | (256) | 1,368 |
| Syndicate operating expenses | 6 | (15,953) | 2,773 | (13,180) | (11,009) |
| Balance on technical account | 7 | 272,738 | (221,171) | 51,567 | (2,298) |
| Investment income | 8 | 5,855 | 7,510 | 13,365 | 10,420 |
| Investment expenses and charges | | (97) | (139) | (236) | (229) |
| Investment gains less losses | | (2,209) | (3,332) | (5,541) | (2,862) |
| Profit for the closed year of account | 14 | 276,287 | (217,132) | 59,155 | 5,031 |

The notes on pages 17 to 31 form part of these accounts.

2003 underwriting account after two years

at 31 December 2004

| | Notes | 2003 account | | | 2002 account after 2 years £'000 |
|--|-------|--------------------------|--|---------------------------|--|
| | | after 1 year £'000 | change in calendar Year £'000 | after 2 years £'000 | |
| Syndicate allocated capacity | | 329,619 | | 329,619 | 325,000 |
| Gross premiums written (net of brokerage) | | 194,698 | 62,229 | 256,927 | 281,700 |
| Outward reinsurance premiums | | 53,664 | 10,779 | 64,443 | 95,090 |
| Net premiums | | 141,034 | 51,450 | 192,484 | 186,610 |
| Reinsurance to close premiums received from earlier years of account | 5 | – | 94,700 | 94,700 | 137,916 |
| | | 141,034 | 146,150 | 287,184 | 324,526 |
| Gross claims paid | | 5,660 | 24,981 | 30,641 | 41,179 |
| Reinsurers' share | | 154 | 1,056 | 1,210 | 4,837 |
| Net claims | | 5,506 | 23,925 | 29,431 | 36,342 |
| Balance on technical account before profit on exchange and syndicate operating expenses | | 135,528 | 122,225 | 257,753 | 288,184 |
| Profit on exchange | | 21 | 21 | 42 | 507 |
| Syndicate operating expenses | 6 | (13,852) | (2,390) | (16,242) | (15,953) |
| Balance on technical account | | 121,697 | 119,856 | 241,553 | 272,738 |
| Investment income | 8 | 1,517 | 4,620 | 6,137 | 5,855 |
| Investment expenses and charges | | (61) | (127) | (188) | (97) |
| Investment gains less losses | | (760) | (2,128) | (2,888) | (2,209) |
| Balance on open year | 15 | 122,393 | 122,221 | 244,614 | 276,287 |

The notes on pages 17 to 31 form part of these accounts.

2004 year of account after one year
at 31 December 2004

| | Notes | 2004 account after 1 year £'000 | 2003 account after 1 year £'000 |
|---|-------|---------------------------------------|---------------------------------------|
| Syndicate allocated capacity | | 343,709 | 329,619 |
| Gross premiums written (net of brokerage) | | 188,925 | 194,698 |
| Outward reinsurance premiums | | 54,268 | 53,664 |
| Net premiums | | 134,657 | 141,034 |
| Gross claims paid | | 12,122 | 5,660 |
| Reinsurers' share | | 894 | 154 |
| Net claims | | 11,228 | 5,506 |
| Balance on technical account before profit on exchange and syndicate operating expenses | | 123,429 | 135,528 |
| Profit on exchange | | 12 | 21 |
| Syndicate operating expenses | 6 | (12,173) | (13,852) |
| Balance on technical account | | 111,268 | 121,697 |
| Investment income | 8 | 1,574 | 1,517 |
| Investment expenses and charges | | (42) | (61) |
| Investment gains less losses | | (872) | (760) |
| Balance on open year | 15 | 111,928 | 122,393 |

The notes on pages 17 to 31 form part of these accounts.

Balance sheet

at 31 December 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|---|-------|----------------|----------------|
| Assets | | | |
| Financial investments | 10 | 404,394 | 336,895 |
| Deposits with ceding undertakings | | 115 | 116 |
| Debtors | 11 | 37,640 | 49,051 |
| Cash at bank and in hand | | 14,573 | 13,688 |
| Overseas deposits | 12 | 50,712 | 44,440 |
| Prepayments and accrued income | 13 | 2,656 | 2,384 |
| Total Assets | | <u>510,090</u> | <u>446,574</u> |
| Liabilities | | | |
| Profit on 2002/(2001) year of account | 14 | 27,513 | 14 |
| Balance on 2003/(2002) year of account | 15 | 234,358 | 254,015 |
| Balance on 2004/(2003) year of account | 15 | 102,013 | 114,500 |
| Creditors | 16 | 144,592 | 62,122 |
| Accruals and deferred income | 17 | 1,614 | 15,923 |
| Total Liabilities | | <u>510,090</u> | <u>446,574</u> |

The annual report was approved at a meeting of the Board of Directors and by the Active Underwriter on 24 March 2005.

A F Beazley Active Underwriter

D A Horton Director – For and on behalf of Beazley Furlonge Limited

The notes on pages 17 to 31 form part of these accounts.

Notes to the accounts

at 31 December 2004

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. For the 2002 year of account syndicate 2623 wrote a whole account qualifying quota share of syndicate 623 that incepted 1 January 2002. The business written by syndicate 623 was shared on a prorata basis with syndicate 2623 in proportion to the stamp capacity of £325m/£78m for the syndicates 623/2623 respectively.

As a Lloyd's requirement at the 36 month stage separate sets of accounts have been prepared for syndicates 623/2623. In order to fairly reflect the underlying substance of the agreement between the syndicates, amounts shown in these accounts have been split on a prorata basis in the same proportion as the allocation of stamp capacity.

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:

- 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 Xchanging Ins-sure Services (previously 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. 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;

- in respect of all years, accruals of known reinsurance recoveries and any related reinsurance premiums; and
- in respect of closing and running-off years, accruals of known additional and return premiums and reinsurance premiums.

- iii) Underwriting transactions are apportioned between the managed syndicates on the basis of the individual syndicates' underlying stamp capacity as a proportion of the total managed capacity for the year of account.

- iv) 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.

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.

Notes to the accounts continued

b) Quota share arrangements

Premiums due to reinsurers under certain quota share arrangements, including qualifying quota share, are accounted for as they arise. Any override commissions earned on reinsurance premiums paid and accrued are credited to expenses. Also, credited to expenses is any override commission anticipated on future reinsurance premiums payable under such contracts.

c) Investments

Investments are stated at market value, including accrued interest at the balance sheet date.

The cost of investments held at 31 December is the aggregate of investments held at the beginning of the year at the previous balance sheet valuation less any disposals made plus any cost of investments acquired during the year and held at the balance sheet date.

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.

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.

d) 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.

e) Foreign currency translation and conversion

The syndicate operates in four separate currency funds of sterling, Euro, United States ("US") dollars and Canadian dollars. Items expressed in US dollars, Euro 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 US dollars, Euros, 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 US 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 US 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 Euro, US dollar and Canadian dollar exchange rates ruling at 31 December 2004 are Euro 1.41, US\$1.92 and C\$2.30 respectively (2003: Euro 1.42, US\$1.79, C\$2.31). The comparative figures are translated into sterling at the exchange rates ruling at 31 December 2003.

f) Taxation

No provision is made on behalf of the members for United Kingdom ("UK") 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 UK taxation liabilities with the Inland Revenue.

Managing agents are not responsible for paying members' final US and Canadian federal income tax assessments.

Any US 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 US 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 US or Canada to agree and settle their US or Canadian taxation liabilities.

g) **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.

Costs incurred jointly by the Syndicates managed by the managing agent have been apportioned between the Syndicates on the same basis as the apportionment of the underwriting transactions.

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.

h) **Profit related remuneration**

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

i) **Insurance debtors and creditors**

In the normal course of business, settlement is required to be made with Xchanging Ins-sure Services, 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 2001 year of account**

The net premium receivable differs from the reinsurance to close premium paid by the 2001 account due to movements in exchange rates.

4 **Reinsurance premiums to close the 2002 year of account**

| | 2002 account at 36 months £'000 | 2001 account at 36 months £'000 |
|--|--|--|
| Gross notified outstanding claims | 190,198 | 187,139 |
| Reinsurance recoveries anticipated | 109,386 | 116,243 |
| Net notified outstanding claims | <u>80,812</u> | <u>70,896</u> |
| Provision for gross claims incurred but not reported | 150,903 | 117,728 |
| Reinsurance recoveries anticipated | 59,249 | 51,586 |
| Provision for net claims incurred but not reported | <u>91,654</u> | <u>66,142</u> |
| Claims handling expense provision | 2,223 | 878 |
| Net premium for reinsurance to close | <u>174,689</u> | <u>137,916</u> |

The 2002 year of account has been reinsured 50% into the 2003 year of account of syndicate 623 and 50% into the 2003 year of account of syndicate 2623. The amount due to syndicate 2623 of £94,700,272 forms part of the amount due to syndicate 2623 disclosed under the creditors note, note 15.

Notes to the accounts continued

5 Reinsurance to close premiums receivable by the 2003 year of account

| | 2003 account at 24 months £'000 |
|--|--|
| RITC from the 2002 year of account of syndicate 623 | 87,345 |
| RITC from the 2002 year of account of syndicate 2623 | 7,355 |
| Net RITC receivable | <u>94,700</u> |

6 Syndicate operating expenses

| | 2002 account | | | 2001 account after 3 years £'000 |
|---|------------------------------------|--|------------------------------------|---|
| | after 2 years £'000 | change in calendar year £'000 | after 3 years £'000 | |
| Closed Year of Account after three years | | | | |
| Salaries and related costs | 6,452 | 960 | 7,412 | 5,340 |
| Accommodation | 780 | (16) | 764 | 399 |
| IT and computer costs | 832 | (87) | 745 | 1,054 |
| Xchanging processing costs | 349 | 207 | 556 | 408 |
| Overseas operating costs | 2,510 | (613) | 1,897 | 1,204 |
| Premium levy | 5,649 | (300) | 5,349 | 3,648 |
| Lloyd's regulatory levy | 191 | – | 191 | 183 |
| Syndicate auditor's remuneration | | | | |
| – audit | 52 | 33 | 85 | 96 |
| –other | 4 | – | 4 | 2 |
| Other professional fees | 510 | 63 | 573 | 561 |
| Charges relating to use of fixed assets | 138 | 11 | 149 | 98 |
| Interest payable | 2 | – | 2 | 102 |
| Other expenses | 1,605 | (70) | 1,535 | 1,535 |
| Commissions earned | (3,121) | (2,961) | (6,082) | (3,621) |
| | <u>15,953</u> | <u>(2,773)</u> | <u>13,180</u> | <u>11,009</u> |

The 2002 change in calendar year expenses includes a charge of £1.0m in respect of a shortfall on the Beazley Furlonge Limited Pension Scheme. Prior to this charge being levied, the pension scheme showed an overall shortfall of £4.3m. Full details of the scheme assets and liabilities are disclosed in the Beazley Group plc accounts.

6 Syndicate operating expenses (continued)

| | 2003 account | | | 2002 account after 3 years £'000 |
|---|--------------------------|--|--|--|
| | after 1 year £'000 | change in calendar year £'000 | after 2 years £'000 | |
| Open Year of Account after two years | | | | |
| Salaries and related costs | 6,358 | 303 | 6,661 | 6,452 |
| Accommodation | 754 | (13) | 741 | 780 |
| IT and computer costs | 1,552 | (131) | 1,421 | 832 |
| Xchanging processing costs | 133 | 319 | 452 | 349 |
| Overseas operating costs | 944 | 1,699 | 2,643 | 2,510 |
| Premium levy | 3,725 | (182) | 3,543 | 5,649 |
| Lloyd's regulatory levy | 151 | - | 151 | 191 |
| Syndicate auditor's remuneration | | | | |
| - audit | 37 | 23 | 60 | 52 |
| - other | 2 | - | 2 | 4 |
| Other professional fees | 588 | 114 | 702 | 510 |
| Charge relating to use of fixed assets | 126 | 7 | 133 | 138 |
| Interest payable | - | - | - | 2 |
| Other expenses | 1,169 | (5) | 1,164 | 1,605 |
| Commissions earned | (1,687) | 256 | (1,431) | (3,121) |
| | <u>13,852</u> | <u>2,390</u> | <u>16,242</u> | <u>15,953</u> |
| | | | 2004 account after 1 year £'000 | 2003 account after 1 year £'000 |
| Open Year of Account after one year | | | | |
| Salaries and related costs | | | 7,468 | 6,358 |
| Accommodation | | | 859 | 754 |
| IT and computer costs | | | 1,829 | 1,552 |
| Xchanging processing costs | | | 309 | 133 |
| Overseas operating costs | | | 1,140 | 944 |
| Premium levy | | | - | 3,725 |
| Lloyd's regulatory levy | | | 199 | 151 |
| Syndicate auditor's remuneration | | | | |
| - audit | | | 32 | 37 |
| - other | | | 3 | 2 |
| Other professional fees | | | 551 | 588 |
| Charge relating to use of fixed assets | | | 137 | 126 |
| Other expenses | | | 1,170 | 1,169 |
| Commissions earned | | | (1,524) | (1,687) |
| | | | <u>12,173</u> | <u>13,852</u> |

Notes to the accounts continued

6 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:

| | 2004 £'000 | 2003 £'000 |
|-----------------------|-----------------------------|-----------------------------|
| Salary | 276 | 310 |
| Pension contributions | 54 | 47 |
| | <u>330</u> | <u>357</u> |

Of the total remuneration, a proportionate share has been charged to syndicate 623 for work performed in relation to this syndicate, with the remainder being charged to syndicate 2623.

“Premium Levy” refers to an additional central levy on all members of Lloyd’s underwriting in 1997 and subsequent years of account. For the calendar year 2002 and 2003, the levy has been increased by 0.9% to a rate of 2% of gross premiums. The levy has been withdrawn from calendar year 2004.

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.

7 Balance on technical account for the closed year

| | 2002 £'000 | 2001 £'000 |
|---|-----------------------------|-----------------------------|
| Profit attributable to business allocated to the 2002/(2001) pure year of account | 64,772 | 8,067 |
| Profit attributable to business reinsured into the 2002/(2001) year of account | 231 | (724) |
| | <u>65,003</u> | <u>7,343</u> |
| Profit/(loss) on exchange | (256) | 1,368 |
| Syndicate operating expenses | (13,180) | (11,009) |
| Balance on technical account | <u>51,567</u> | <u>(2,298)</u> |

8 Investment income

| | 2002 account | | | 2001 account after 3 years £'000 |
|--|--|--|--|---|
| | after 2 years £'000 | change in calendar year £'000 | after 3 years £'000 | |
| Investment income receivable | 6,228 | 7,611 | 13,839 | 10,931 |
| Amounts receivable in respect of interest accrued on investments sold, purchased or revalued | (373) | (101) | (474) | (511) |
| | <u>5,855</u> | <u>7,510</u> | <u>13,365</u> | <u>10,420</u> |

| | 2003 account | | | 2002 account after 2 years £'000 |
|--|---|--|--|---|
| | after 1 year £'000 | change in calendar year £'000 | after 2 years £'000 | |
| Investment income receivable | 1,690 | 4,702 | 6,392 | 6,228 |
| Amounts receivable in respect of interest accrued on investments sold, purchased or revalued | (173) | (82) | (255) | (373) |
| | <u>1,517</u> | <u>4,620</u> | <u>6,137</u> | <u>5,855</u> |

8 Investment income (continued)

| | 2004 Account after 1 year £'000 | 2003 Account after 1 year £'000 |
|---|--|--|
| Investment income receivable | 1,639 | 1,690 |
| Amounts receivable in respect of interest accrued on investments sold, purchased or revalued | (65) | (173) |
| | <u>1,574</u> | <u>1,517</u> |

9 Calendar year investment yield

| | 2004 £'000 | 2003 £'000 |
|--|-----------------------|-----------------------|
| Average monthly syndicate funds: | | |
| £ | 69,683 | 61,574 |
| EUR | 4,536 | – |
| US\$ | 617,852 | 457,527 |
| Can\$ | 55,047 | 41,234 |
| All in £ | 418,632 | 335,026 |
| Aggregate gross investment return for the calendar year: | | |
| £ | 2,832 | 3,058 |
| EUR | 80 | – |
| US\$ | 8,571 | 6,456 |
| Can\$ | 1,589 | 1,325 |
| All in £ | 8,044 | 7,239 |
| Calendar year investment yield: | | |
| £ | 4.1% | 5.0% |
| EUR | 1.8% | – |
| US\$ | 1.4% | 1.4% |
| Can\$ | 2.9% | 3.2% |
| All in £ | 1.9% | 2.2% |

10 Financial investments

| | 2004 | | 2003 | |
|---|-----------------------|-----------------------------------|-----------------------|-----------------------------------|
| | Cost £'000 | Market Value £'000 | Cost £'000 | Market Value £'000 |
| Debt securities and other fixed income securities | <u>408,202</u> | <u>404,394</u> | <u>337,904</u> | <u>336,895</u> |

Notes to the accounts continued

11 Debtors

| | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year | | |
| Arising out of direct insurance operations | 3,483 | 4,237 |
| Arising out of reinsurance operations | 27,491 | 41,637 |
| Brokers' balances | 30,974 | 45,874 |
| Amount due from Managing Agent | 3,556 | 598 |
| Other debtors | 3,070 | 2,572 |
| | <u>37,600</u> | <u>49,044</u> |
| Amounts falling due after one year | | |
| Arising out of direct insurance operations | 30 | – |
| Arising out of reinsurance operations | 10 | 7 |
| Brokers' balances | 40 | 7 |
| Total debtors | <u>37,640</u> | <u>49,051</u> |

Provision for Bad Debts

A release of £745,000 has been made in arriving at the balance on the technical account for the 2002 year of account (2001 year of account charge of £3,317,112).

12 Overseas deposits

| | 2004 £'000 | 2003 £'000 |
|-------------------------------|---------------|---------------|
| Illinois deposits | 17,416 | 15,266 |
| Kentucky deposits | 1,165 | 1,423 |
| South African deposits | 5,196 | 1,588 |
| Japanese deposits | 354 | 352 |
| Australian deposits | 9,860 | 7,724 |
| Joint Asset Trust Funds | 8,878 | 8,365 |
| Additional Securities Limited | 4,536 | 5,908 |
| Lloyd's Canadian Margin Funds | 3,307 | 3,814 |
| | <u>50,712</u> | <u>44,440</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 State of Illinois and Kentucky, USA and are required to enable the syndicate to underwrite business arising in those states.

The South African deposit is represented by the Lloyd's South African Trust Deed (LSATD) 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 £9,305,911 (2003: £7,331,130) and the Lloyd's Joint Asset Trust Fund deposit of £554,606 (2003: £393,292). 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 US 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.

13 Prepayments and accrued income

| | 2004 £'000 | 2003 £'000 |
|---|-----------------------------|-----------------------------|
| Override commissions due on qualifying quota share Agreements | 1,91 | 937 |
| Accrued investment income | 692 | 785 |
| Prepayments | 47 | 662 |
| | <u>2,656</u> | <u>2,384</u> |

The override commissions due have been credited to the underwriting accounts as follows:

| | 2004 £'000 | 2003 £'000 |
|-----------------------------|-----------------------------|-----------------------------|
| 2002 (2001) year of account | 1,428 | – |
| 2003 (2002) year of account | 135 | 341 |
| 2004 (2003) year of account | 354 | 596 |
| | <u>1,917</u> | <u>937</u> |

14 Profit of 2002 (2001) closed year of account

| | 2004 £'000 | 2003 £'000 |
|---|-----------------------------|-----------------------------|
| Closed year of account profit | 59,155 | 5,031 |
| Personal expenses | (5,983) | (3,425) |
| Profit commission | (9,261) | (356) |
| Members' Agents' fees – funded by syndicate | (1,672) | (1,236) |
| Continuous solvency transfer | (14,726) | – |
| | <u>27,513</u> | <u>14</u> |

Closed year profit analysed by Trust Fund:

| | | 2004 '000 | 2003 '000 |
|----------------------------|----------|----------------------------|----------------------------|
| Sterling trust fund | £ | (7,974) | (12,643) |
| US dollar trust fund | US\$ | 123,656 | 31,351 |
| Canadian dollar trust fund | CAN\$ | 6,267 | 369 |
| All expressed in sterling | All in £ | 59,155 | 5,031 |

The sterling equivalent of the closed year profit expected to be distributed in currency is £59,155,000 (2003: £5,030,644).

Notes to the accounts continued

14 Profit of 2002 (2001) closed year of account (continued)

The amounts attributable to Syndicates 623 and 2623 are made up as follows:

| | 2002 Account after 36 months | | | 2002 Account after 24 months | | |
|--|------------------------------|---------------|-------------------|------------------------------|---------------|-------------------|
| | 623 £'000 | 2623 £'000 | Combined £'000 | 623 £'000 | 2623 £'000 | Combined £'000 |
| Syndicate allocated capacity | 325,000 | 78,000 | 403,000 | 325,000 | 78,000 | 403,000 |
| Gross premiums written (net of brokerage) | 279,788 | 66,935 | 346,723 | 281,700 | 67,608 | 349,308 |
| Outward reinsurance premiums | 98,147 | 23,122 | 121,269 | 95,090 | 22,822 | 117,912 |
| Net premiums | 181,641 | 43,813 | 255,454 | 186,610 | 44,786 | 231,396 |
| Reinsurance to close premiums received from earlier years of account | 132,777 | – | 132,777 | 137,916 | – | 137,916 |
| | <u>314,418</u> | <u>43,813</u> | <u>358,231</u> | <u>324,526</u> | <u>44,786</u> | <u>369,312</u> |
| Gross claims paid | 131,245 | 15,963 | 147,208 | 41,179 | 9,883 | 51,062 |
| Reinsurers' share | 56,519 | 2,406 | 58,925 | 4,837 | 1,161 | 5,998 |
| Net claims | 74,726 | 13,557 | 88,283 | 36,342 | 8,722 | 45,064 |
| Reinsurance premium paid to close the year of account | 174,689 | 14,711 | 189,400 | – | – | – |
| | <u>249,415</u> | <u>28,268</u> | <u>277,683</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| Balance on technical account before profit on exchange and syndicate operating expense | 65,003 | 15,545 | 80,548 | 288,184 | 36,064 | 324,248 |
| Profit on exchange | (256) | 207 | (49) | 507 | 121 | 628 |
| Syndicate operating | (13,180) | (5,866) | (19,046) | (15,953) | (3,954) | (19,907) |
| Balance on technical account | 51,567 | 9,886 | 61,453 | 272,738 | 32,231 | 304,969 |
| Investment income | 13,365 | 2,282 | 15,647 | 5,855 | 1,405 | 7,260 |
| Investment expenses and charges | (236) | (54) | (290) | (97) | (24) | (121) |
| Investment gains less losses | (5,541) | (986) | (6,527) | (2,209) | (530) | (2,739) |
| Profit/Balance on year of account | 59,155 | 11,128 | 70,283 | 276,287 | 33,082 | 309,369 |
| Personal expenses | (5,983) | (1,329) | (7,312) | (5,984) | (1,329) | (7,313) |
| Profit commission | (9,261) | – | (9,261) | – | – | – |
| Members' agents' fees | (1,672) | – | (1,672) | (1,672) | – | (1,672) |
| Continuous Sovency transfer | (14,726) | – | (14,726) | (14,616) | – | (14,616) |
| | <u>27,513</u> | <u>9,799</u> | <u>37,312</u> | <u>254,015</u> | <u>31,753</u> | <u>285,768</u> |

15 Open year of account balances

| | 2004 | 2003 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Open year of account after two years: | | |
| 2003/(2002) year of account balance | 244,614 | 276,287 |
| Personal expenses | (6,072) | (5,984) |
| Members' Agents' fees – funded by syndicate | (1,821) | (1,672) |
| Continuous solvency transfer | (2,363) | (14,616) |
| | <u>234,358</u> | <u>254,015</u> |
| Open year of account after one year: | | |
| 2004 (2003) year of account balance | 111,928 | 122,393 |
| Personal expenses | (8,071) | (6,072) |
| Members' agents' fees – funded by syndicate | (1,844) | (1,821) |
| | <u>102,013</u> | <u>114,500</u> |

16 Creditors

| | 2004 | 2003 |
|--|----------------|---------------|
| | £'000 | £'000 |
| Amounts falling due within one year | | |
| Arising out of direct insurance operations | 521 | 211 |
| Arising out of reinsurance operations | 29,781 | 31,706 |
| Brokers' balances | 30,302 | 31,917 |
| Profit commission payable | 9,261 | 356 |
| Amount due to Syndicate 2623 | 105,009 | 29,842 |
| Other creditors | 10 | – |
| | <u>144,582</u> | <u>62,115</u> |
| Amounts falling due after one year | | |
| Arising out of direct insurance operations | 10 | – |
| Arising out of reinsurance operations | – | 7 |
| Brokers' balances | 10 | 7 |
| Total creditors | <u>144,592</u> | <u>62,122</u> |

There have been no material borrowings in the year.

17 Accruals and deferred income

| | 2004 | 2003 |
|----------------------------------|--------------|---------------|
| | £'000 | £'000 |
| Deferred income: | | |
| Whole account stop loss recovery | | |
| 1998 account | – | 4,536 |
| 1999 account | – | 3,528 |
| Advance reinsurance recoveries | | |
| 2000 account | 4 | 109 |
| 2001 account | 439 | 1,968 |
| Accruals | <u>1,171</u> | <u>5,782</u> |
| | <u>1,614</u> | <u>15,923</u> |

The average rate of interest paid by the syndicate on advance reinsurance recoveries is LIBOR plus 1½%.
The deferred income will be off-set against future paid claims on the year of account noted.

Notes to the accounts continued

18 Rates of exchange for translation into sterling

| | 2004 £'000 | 2003 £'000 |
|------------------------------------|---------------|---------------|
| Rates ruling at 31 December | | |
| United States dollars | 1.92 | 1.79 |
| Canadian dollars | 2.30 | 2.31 |
| Euro | 1.41 | 1.42 |

19 Illustrative shares

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

| | Syndicate allocated capacity £'000 | Illustrative £10,000 share % |
|------|---|---------------------------------------|
| 2004 | 343,709 | 0.002909 |
| 2003 | 329,619 | 0.003034 |
| 2002 | 325,000 | 0.003077 |

20 Disclosure of interests

N H Furlonge has a minority shareholding in D3 Limited, a company that provides human resource services and advice to Beazley Furlonge Limited. During 2004, £85,929 (2003: £122,348) was paid to D3 Limited in respect of these services.

The syndicate paid Alliance Capital Limited £360,159 in 2004 (2003: £308,724) in respect of the investment services provided. George Blunden, a director of Beazley Furlonge Limited, is an executive director of Alliance Capital Limited and a member of the investment committee.

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

21 Consortium underwriting

The syndicate participated in the following consortia during the period under review:

a) ASU consortium

Beazley participated in the ASU consortium for the 2003 and 2004 years. This consortium is led by SJC syndicate 2003; this provides contingency insurance, mostly event cancellation coverage.

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

b) FTC Consortium

Syndicate 623 participated in the FTC consortium for the 2002 year of account, led by syndicate 2001, Amlin, and syndicate 435, Faraday, which writes commercial automobile physical damage business emanating from the USA and Canada. The perils covered are fire, theft, collision and motor truck cargo. The risks are allocated in accordance with an agreed percentage allocation. The leading underwriters charge a fee of 3% of net premiums.

c) Guy Carpenter WCA consortium

Beazley participated in the WCA consortium for the 2003, 2004 and 2005 years (expiry date 31 December annually) led by Atrium which writes WCA business emanating from the US.

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

d) Hiscox space consortium

This is a true consortium following Hiscox on the satellite account. It was written on an opportunistic basis in 2004 to take advantage of the lack of capacity and consequent hard market conditions at the time. It covers both the physical damage launch & life risk and is expected to generate a NPI of approximately \$4.5m for the 2005 year of account. It is possible that it will not be renewed for 2006 if this market softens.

e) HSB Houghton

Beazley participated in the engineering consortium for the, 2001, 2002, 2003 years. We took over the lead in 2004 (expiry date 31 March annually); this writes engineering business emanating from worldwide exposures. Risks are allocated with an agreed percentage allocation. No fees or commissions have been received or are receivable in respect of this participation.

f) Lloyd's WCA CAT consortium

Beazley participated in the WCA consortium for the 2002 and 2003 years (expiry date 31 May annually) led by Faraday syndicate: this writes WCA business emanating from the US.

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

g) Small business consortium 9056 2004 agreement

The syndicate participates in the small business consortium for the 2004 and 2005 years of account, which is led by Syndicate 727 S.A. Meacock. The type of business written by the consortium includes but is not limited to fire, mortgage indemnity, automobile physical damage, purchase protection and contingency, redundancy and mortgage impairment. Most of the business emanates from the USA and Canada. The leading underwriter charges a fee of up to 5% of net premiums.

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

| | 2002 At 36 Months % | 2003 At 24 Months % | 2004 At 12 Months % |
|---|---|---|---|
| ASU consortium | – | 0.43 | 0.31 |
| FTC consortium | 0.31 | – | – |
| Guy Carpenter consortium | – | 0.02 | 0.02 |
| Hiscox Space consortium | – | – | 0.28 |
| HSB Houghton consortium | 0.31 | 0.33 | 0.33 |
| Lloyd's WCA CAT consortium | 0.13 | 0.05 | – |
| Small business consortium 9056 2004 agreement | – | – | 0.29 |

22 Service companies

The Managing Agency holds a 48.0% equity interest on behalf of the Syndicate in Asia Pacific Underwriting Agency Limited (APUA) which writes errors and omissions, directors' and officers' liability 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:

| | 2002 At 36 Months % | 2003 At 24 Months % | 2004 At 12 Months % |
|----------------|---|---|---|
| Premium income | 0.16 | 0.23 | 0.14 |

Notes to the accounts continued

23 Segmental information

| | Direct business | | | Reinsurance acceptance | | Total £'000 | |
|--|-----------------|--|--------------------------------------|------------------------|--|----------------|-------------------------------|
| | Notes | Fire & other damage to property £'000 | Third party liability £'000 | Other £'000 | Fire & other damage to property £'000 | | Other reinsurance £'000 |
| 2002 closed year of account after three years | | | | | | | |
| Business in respect of risks located in: | | | | | | | |
| United Kingdom | | 14,402 | 20,618 | 1,626 | 2,999 | 59 | 39,704 |
| Other EC member countries | | 1,810 | 6,961 | 8,510 | 1,791 | 35 | 19,107 |
| Other countries | | 81,285 | 71,691 | 38,773 | 28,664 | 564 | 220,977 |
| Gross premiums written | 1 | 97,497 | 99,270 | 48,909 | 33,454 | 658 | 279,788 |
| Gross claims paid | | 32,546 | 47,597 | 38,824 | 12,115 | 164 | 131,245 |
| Gross operating expenses | 2 | 4,593 | 4,676 | 2,304 | 1,576 | 31 | 13,180 |
| Reinsurance balance | 3 | (19,024) | (12,888) | 1,415 | (10,723) | (408) | (41,628) |
| Average rate of commission and brokerage | | 21% | 21% | 20% | 17% | 17% | |

| | Direct business | | | Reinsurance acceptance | | Total £'000 | |
|--|-----------------|--|--------------------------------------|------------------------|--|----------------|-------------------------------|
| | Notes | Fire & other damage to property £'000 | Third party liability £'000 | Other £'000 | Fire & other damage to property £'000 | | Other reinsurance £'000 |
| 2003 open year of account after two years | | | | | | | |
| Business in respect of risks located in: | | | | | | | |
| United Kingdom | | 13,856 | 18,054 | 3,096 | 3,114 | 115 | 38,235 |
| Other EC member states | | 2,592 | 7,524 | 6,736 | 2,270 | 84 | 19,206 |
| Other countries | | 61,870 | 89,082 | 25,593 | 22,123 | 818 | 199,486 |
| Gross premiums written | 1 | 78,317 | 114,661 | 35,425 | 27,507 | 1,017 | 256,927 |
| Gross claims paid | | 17,187 | 3,131 | 6,922 | 3,263 | 138 | 30,641 |
| Gross operating expenses | 2 | 4,951 | 7,248 | 2,239 | 1,739 | 65 | 16,242 |
| Reinsurance balance | 3 | (18,326) | (25,680) | (8,279) | (10,693) | (255) | (63,233) |
| Average rate of commission and brokerage | | 21% | 18% | 21% | 16% | 16% | |

23 Segmental information (continued)

| | Direct business | | | Reinsurance acceptance | | Total £'000 | |
|---|-----------------|---|--------------------------------------|------------------------|---|----------------|-------------------------------|
| | Notes | Fire & other damage to property £'000 | Third party liability £'000 | Other £'000 | Fire & other damage to property £'000 | | Other reinsurance £'000 |
| 2004 open year of account after one year | | | | | | | |
| Business in respect of risks | | | | | | | |
| Located in: | | | | | | | |
| United Kingdom | | 11,470 | 11,875 | 2,334 | 2,218 | 39 | 27,936 |
| Other EC member states | | 1,182 | 5,384 | 5,866 | 2,337 | 41 | 14,810 |
| Other countries | | 32,827 | 74,826 | 16,434 | 21,706 | 386 | 146,179 |
| Gross premiums written | 1 | 45,479 | 92,085 | 24,634 | 26,261 | 466 | 188,925 |
| Gross claims paid | | 5,631 | 185 | 3,181 | 3,125 | 0 | 12,122 |
| Gross operating expenses | 2 | 2,930 | 5,933 | 1,587 | 1,692 | 30 | 12,172 |
| Reinsurance balance | 3 | (14,906) | (21,773) | (8,408) | (8,173) | (114) | (53,374) |
| Average rate of commission and brokerage | | 24% | 18% | 21% | 14% | 14% | |

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 of closed year results at 31 December 2004

| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---------|---------|---------|---------|---------|---------|---------|
| Syndicate allocated capacity – £000's | 325,000 | 215,317 | 125,186 | 94,699 | 94,690 | 89,874 | 90,013 |
| Capacity utilised | 86% | 109% | 108% | 124% | 88% | 72% | 71% |
| Number of underwriting members | 1,612 | 1,351 | 960 | 827 | 830 | 958 | 978 |
| Aggregate net premiums – £000's | 181,641 | 143,785 | 79,102 | 70,813 | 56,589 | 44,489 | 44,062 |
| Net capacity utilised | 56% | 67% | 63% | 75% | 60% | 50% | 49% |
| Underwriting profit as a percentage of gross premiums | 23.2% | 3.1% | 3.0% | 2.1% | 2.5% | 6.7% | 6.9% |
| Results for an illustrative £10,000 share | | | | | | | |
| | £ | £ | £ | £ | £ | £ | £ |
| Gross premiums | 8,609 | 10,943 | 10,810 | 12,394 | 8,829 | 7,201 | 7,135 |
| Net premiums | 5,589 | 6,678 | 6,319 | 7,478 | 5,976 | 4,950 | 4,895 |
| Reinsurance to close from an earlier account | 4,085 | 3,897 | 6,146 | 7,619 | 6,606 | 5,799 | 4,218 |
| Net claims | (2,299) | (3,829) | (5,073) | (6,192) | (4,829) | (3,623) | (2,950) |
| Reinsurance to close the year of account | (5,375) | (6,405) | (7,066) | (8,647) | (7,536) | (6,644) | (5,674) |
| Underwriting profit | 2,000 | 341 | 326 | 258 | 217 | 482 | 489 |
| Profit/(loss) on exchange | (8) | 64 | (22) | (31) | 3 | 21 | 2 |
| Syndicate operating expenses | (405) | (512) | (524) | (556) | (582) | (597) | (478) |
| Balance on technical account | 1,587 | (107) | (220) | (329) | (362) | (94) | 13 |
| Gross investment return | 234 | 341 | 488 | 776 | 614 | 430 | 505 |
| Profit before personal expense | 1,821 | 234 | 268 | 447 | 252 | 336 | 518 |
| Illustrative personal expenses | | | | | | | |
| Illustrative personal expenses | (184) | (159) | (185) | (195) | (224) | (199) | (179) |
| Managing agent's profit commission | (285) | (17) | (21) | (52) | (16) | (32) | (51) |
| Profit after illustrative profit commission and personal expenses | 1,352 | 58 | 62 | 200 | 12 | 105 | 288 |

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 the 1996 account include the special contribution to the central fund.
4. Internal claims settlement expenses have been included in "net claims".
5. The 2002 account figures above are not on a combined Syndicate 623 and 2623 basis. They reflect the pure Syndicate 623 position.
6. The syndicate allocated capacity excludes the qualifying quota share arrangements in 2002.

Managing agent

additional information

Managing agent

additional information

Directors

The directors of Beazley Furlonge Limited during the period covered by this annual report participated on syndicate 623 either directly as a name, or through NameCos, or indirectly through Beazley Staff Underwriting Ltd are as follows:

| | 2002 | 2003 | 2004 | 2005 |
|-------------------|-----------|-----------|-----------|-----------|
| | £ | £ | £ | £ |
| Jonathan GW Agnew | – | – | – | 70,000 |
| Andrew F Beazley | 1,100,000 | 1,000,000 | 1,357,710 | 1,025,095 |
| Arthur R Manners | 375,000 | 375,000 | 500,000 | 500,000 |
| Johnny G Rowell | 1,000,000 | 1,000,000 | 1,116,100 | 1,250,000 |
| Joseph D Sargent | 848,000 | 952,000 | 870,400 | – |

For all years of account, the participation is on a limited liability basis, with the exception of Jonathan GW Agnew.

None of the directors have a personal stop loss policy relating to the years 2002 to 2005.

| | 2002 | 2003 | 2004 | 2005 |
|---|-----------|------|---------|---------|
| | £ | £ | £ | £ |
| Indirect limited liability participation | | | | |
| Jonathan GW Agnew (Non-Executive) | 44,400 | – | – | – |
| Andrew F Beazley (Active Underwriter) | 4,070,209 | – | – | – |
| George P Blunden (Non-Executive) | 44,400 | – | – | – |
| Nicholas H Furlonge (Deputy Underwriter) | 1,480,072 | – | 132,000 | 111,841 |
| Jonathan G Gray | 2,034,683 | – | 132,000 | 111,841 |
| David A Horton | – | – | 132,000 | 111,841 |
| Neil P Maidment | 1,776,089 | – | 132,000 | 111,841 |
| Arthur R Manners | 592,035 | – | – | – |
| Johnny G Rowell | 2,516,133 | – | – | – |
| Joseph D Sargent (Non-Executive Chairman) | 147,573 | – | – | – |

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

There is no indirect participation on syndicate 623 for 2003. The directors have a shareholding in Beazley Group plc which provides the capacity for syndicate 2623. Syndicate 2623 has capacity of £330m, as disclosed already in this report, and writes in parallel with syndicate 623. Specific shareholdings are shown below.

For 2004 and 2005 the above directors participate through an indirect involvement in the results of Beazley Staff Underwriting Limited. This corporate member was established for the 2004 year of account with capacity of £4.6m. The majority of underwriters and claims staff have an interest through this company in the results of the syndicate. These individuals have agreed to defer future bonuses that will be at risk if the syndicate declares losses.

| | Shareholding of Beazley Group plc as at 31 December 2004 | Shareholding as a percentage of the total issued shares of Beazley Group plc at 31 December 2004 |
|---------------------|---|---|
| Jonathan GW Agnew | 114,263 | 0.03% |
| Andrew F Beazley | 7,009,905 | 1.94% |
| George P Blunden | 72,713 | 0.02% |
| Nicholas H Furlonge | 2,510,831 | 0.70% |
| Jonathan G Gray | 3,368,805 | 0.93% |
| David A Horton | 36,461 | 0.01% |
| Neil P Maidment | 2,945,307 | 0.82% |
| Arthur R Manners | 969,572 | 0.27% |
| Andy Pomfret | 16,500 | 0.00% |
| Johnny G Rowell | 4,120,663 | 1.14% |
| Joseph D Sargent | 1,292,193 | 0.36% |
| | <u>22,457,213</u> | <u>6.22%</u> |

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 is a Director of Specialty 004 Limited and Specialty 005 Limited, investment companies of Aon Group UK Limited.

Active underwriter

Andrew F Beazley is the active underwriter of the syndicate. For the 2000 year of account, Andrew Beazley resigned his membership of Lloyd's. For the 2001 and 2002 year of accounts he recommenced underwriting through a 'NameCo' on a limited liability basis solely on syndicate 623.

Related parties byelaw

Thomas F Sullivan

Thomas F Sullivan 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 at an arm's length basis and on normal commercial terms. Thomas F Sullivan resigned from the board of Beazley Furlonge Limited on 15 March 2001. He continues to be a director of Beazley Group plc.

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 2004 the group companies of Aon Corporation placed premiums of approximately £88m with syndicate 623. Any business conducted between syndicate 623 and Aon Corporation was conducted at an arm's length basis and on normal commercial terms.

Other interests

The equity interest held by Aon Corporation in Beazley Furlonge Holdings Limited was purchased in March 2001 by Beazley Group plc, the new holding company for the Beazley Group. In November 2002 the ordinary shares of Beazley Group plc were listed on the London Stock Exchange. Aon Corporation no longer has an interest in the share capital of Beazley Group plc.

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, who from time to time, participate 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. The details are:

Asia Pacific Underwriting Agency Limited (APUA)

Beazley Furlonge Limited holds a 48.0% equity interest in APUA. APUA is incorporated in Hong Kong and was established to assist in accessing business in Hong Kong and the Far East. Andrew F Beazley is an executive director of APUA. He does not receive any remuneration nor other benefit for acting as a director of APUA.

Stock lending

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

Syndicate expenses

Beazley Furlonge Limited's policy for charging 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 14 October 1998 with a limit of indemnity of £10m. This policy was renewed on 30th December 2004.

Syndicate allocated capacity

The syndicate's allocated capacity for the 2004 year of account is £343,708,739. The managed capacity of both 623 and 2623 is £740m for the 2004 year of account.

Reinsurance résumés

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

Sub-contracted functions

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

- i) Administrative and accounting functions – Axiom Consulting Limited
- ii) Management of investments – Alliance Capital Limited
- iii) Data entry – Capita plc
- 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 Consulting Limited, 1 Portsoken Street, London, E1 8DF.

Syndicate auditors

Mazars LLP succeeded to Mazars as the independent auditor to the syndicate during 2004.

Managing agent – key financial information

| | 2004 £'000 | 2003 £'000 | 2002 £'000 | 2001 £'000 | 2000 £'000 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Gross capacity managed | 740,236 | 659,365 | 403,001 | 215,317 | 125,186 |
| Income: | | | | | |
| Managing Agent's fees | 4,418 | 3,887 | 2,408 | 1,293 | 752 |
| Profit commission | 356 | 257 | 492 | 149 | 292 |
| Total fees from the managed syndicate | 4,774 | 4,144 | 2,900 | 1,442 | 1,044 |
| Other | 250 | 106 | 17 | 30 | 97 |
| | 5,024 | 4,250 | 2,917 | 1,472 | 1,141 |
| Total agency expenses | 27,272 | 18,478 | 12,207 | 7,019 | 4,652 |
| Less: expenses recharged to the syndicate | (26,148) | (16,359) | (9,696) | (5,581) | (3,848) |
| | 1,124 | 2,119 | 2,511 | 1,438 | 804 |
| Profit before taxation | 3,900 | 2,131 | 406 | 34 | 337 |
| Profit margin before profit commission and related expenses | 80% | 49% | (1.7%) | (5.3%) | 23.8% |
| Total operating expenses as a Percentage of total managed capacity | 3.7% | 2.8% | 3.0% | 3.3% | 3.7% |
| Total employment costs incurred | 15,151 | 16,715 | 9,327 | 5,524 | 3,709 |
| Less: amounts recharged to the managed syndicate | (14,402) | (15,590) | (8,997) | (5,255) | (3,482) |
| Employment costs retained by the Managing Agent | 749 | 1,125 | 330 | 269 | 227 |
| Net assets of the Managing Agency | 6,841 | 2,235 | 653 | 653 | 735 |

Managing agent

additional information continued

Managing agent – key financial information – continued

| | 2002 £'000 | 2001 £'000 | 2000 £'000 | 1999 £'000 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Profit before personal expenses attributable to: | | | | |
| Working Members employed by Beazley Furlonge Limited | 2,854 | 151 | 134 | 42 |
| Other working Members | 1,712 | 151 | 100 | 169 |
| External Members | 21,689 | 2,012 | 1,271 | 1,735 |
| Corporate Members | 44,028 | 2,717 | 1,841 | 2,285 |
| | <u>70,283</u> | <u>5,031</u> | <u>3,346</u> | <u>4,231</u> |
| | 2005 % | 2004 % | 2003 % | 2002 % |
| Syndicate allocated capacity attributable to: | | | | |
| Working Members employed by | | | | |
| Beazley Furlonge Limited | 1 | 3 | 1 | 5 |
| Other working Members | 1 | 1 | 1 | 3 |
| External Members | 32 | 79 | 45 | 38 |
| Corporate Members | 65 | 17 | 53 | 54 |
| | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> |

Multiple syndicate statement

Syndicates managed by Beazley Furlong Limited

This agency is responsible for managing syndicates 623 and 2623. The information to be disclosed is as follows:

| | 2002 Account | 2003 Account 623 | 2003 Account 2623 | 2004 Account 623 | 2004 Account 2623 |
|--|-------------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|
| Syndicate allocated capacity | £403,001,024 | £329,618,938 | £329,745,782 | £344,644,478 | £396,526,602 |
| Number of underwriting members | 1,612 | 1,675 | 1 | 1,599 | 1 |
| Profit for an illustrative share of £10,000 (before personal expenses and taxation) | | | | | |
| Number of executives participating in syndicate excluding indirect limited liability participation | 4 | 4 | – | 4 | – |
| Aggregate percentage participation of executives | 0.8% | 1.0% | – | 1.2% | – |
| Total profit attributable to executives | £473,240 | | | | |
| Analysis of gross premium underwritten: | % | % | % | % | % |
| Direct business | | | | | |
| Fire and other damage to property | 34.8 | 30.5 | 30.5 | 24.1 | 23.8 |
| Third party liability | 35.5 | 44.6 | 44.9 | 48.7 | 49.1 |
| Other | 17.5 | 13.8 | 13.4 | 13.0 | 12.8 |
| | 87.8 | 88.9 | 88.8 | 85.8 | 85.7 |
| Reinsurance acceptances | | | | | |
| Fire and other damage to property | 12.0 | 10.7 | 10.7 | 13.9 | 14.1 |
| Other | 0.2 | 0.4 | 0.5 | 0.3 | 0.2 |
| | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Multiple syndicate statement

Syndicates managed by Beazley Furlonge Limited continued

2002 Year of account

For the 2002 year of account, syndicate 2623 was a whole account quota share syndicate of syndicate 623. It reinsured 19.35% of all syndicate 623's business for the 2002 year of account and is allocated a proportionate share of reinsurance costs, expenses and investment income.

2003 Year of account

With effect from the 2003 year of account, Syndicate 623 and Syndicate 2623 have written in parallel to each other. Andrew F. Beazley is the active underwriter of both syndicates and all business accepted by him, or on his behalf, is allocated between them on a consistent predetermined basis in proportion to their respective capacities. Each syndicate has an identical reinsurance programme. All insurance related income and expenditure is charged pro rata the respective capacities.

2004 Year of account

The parallel syndicate arrangement continued for the 2004 year of account.

The pro rata splits for the period covered by this statement are as follows:

| | Syndicate No. 623 % | Syndicate No. 2623 % |
|------|------------------------------------|-------------------------------------|
| 2003 | 50.00 | 50.00 |
| 2004 | 46.00 | 54.00 |

Beazley Furlonge Ltd
Syndicate 2623/623
at Lloyd's

One Aldgate
London
EC3N 1AA

Tel: +44 (0)20 7667 0623
Fax: +44 (0)20 7667 0624
www.beazley.com