

Syndicate 623 at Lloyd's Annual Report 2006

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## Highlights

	2006	2005
Syndicate capacity (£m)	183.0	223.0
Gross premiums written (£m)	212.5	258.0
Net premiums written (£m)	164.9	195.8
Net earned premiums (£m)	179.1	235.9
<b>Profit for the year (£m)</b>	<b>40.2</b>	<b>17.1</b>
Claims ratio	47%	67%
Expense ratio	34%	31%
Combined ratio	81%	98%
Rate increase	6%	–
Cash and investments (£m)	365.9	429.8
Average investment return	4.1%	2.9%

### Overview

The syndicate has achieved a profit for the year of £40.2m due to strong underwriting conditions following last year's hurricane losses, combined with strong returns from our investment balances. We were well placed to make the most of the opportunities presented, maintaining our strategy of controlled risk taking. We are very proud of this result which comes during the 20th anniversary of Beazley Furlonge Limited as a managing agency of Lloyd's.

For 2006 total managed premium capacity for Beazley increased to £830m (2005: £742m). This increase was driven by the forecast increase in insurance rates following the 2005 hurricane season, together with continued growth in our specialty lines business. Syndicate 623 contributed £183m (22%) and Beazley Group plc through syndicate 2623, the remaining £647m (78%).

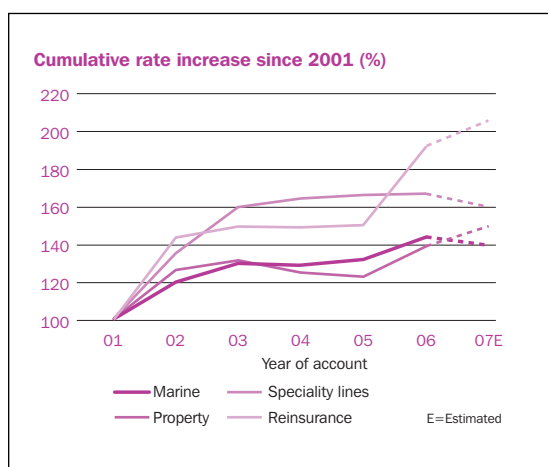
2006 was a good year for the syndicate following the turbulent times arising from the hurricane losses in 2005. We were well placed to exploit the opportunities presented from the strong underwriting conditions.

### Year of account results

We are delighted to declare a result of 8.4% return on capacity (2005: 6.5%) for the 2004 year of account. This year has developed better than initially anticipated following claims releases against a number of our short and medium term accounts. The 2005 year is also developing well, currently forecasting a return of 1.5% (2005: break even). This year was badly impacted by the 2005 hurricane season (discussed above). The performance of this year, in the context of such losses, is a testament to the diversity of our account and strength of our underwriting. 2006, which is still in the early stages of development, is expected to be another profitable underwriting year. We are currently forecasting a return on capacity of 12%.

### Rating environment

During 2006, trading conditions were robust across all lines of business. The market is proving to be dynamic and responsive, with rate increases across all classes averaging 6%. This is particularly true in our catastrophe accounts: reinsurance, open market property and offshore energy. These were heavily impacted by the 2005 hurricane season. Hurricanes Katrina, Rita and Wilma accounted for estimated worldwide losses of around US\$80bn, of which the syndicate's share was originally estimated at £30m.



We have since adjusted the way we price our risks. For instance, in our reinsurance account, our premium rates increased by over 28% in 2006. Likewise, open market property rates increased by 26% while offshore energy rates saw some of the highest increases. To ensure our prices were correctly calibrated, we bought and refined a number of risk management products which we use to monitor pricing and our aggregate exposures in certain geographical regions.

Rates across specialty lines, which accounts for around 50% of the premiums we write, maintained their competitive position (a small increase of 1%) despite increasing pressure on rates during the second half of the year. Across the combined syndicate, this team grew to write premiums of £450m (a 14% increase). Through this growth we continued to seek out the most attractive risks while adhering to rigorous risk management principles.

### Combined ratio

The syndicate's combined ratio has reduced from 98% in 2005 to 81% in 2006. The 2005 ratio was heavily impacted by the US hurricane losses.

### Claims

Our claims ratio decreased to 47% in 2006 (2005: 67%). This has arisen due to two principal factors:

- 2005 was heavily impacted by hurricane losses; and
- Increased releases of specialty lines reserves in 2006.

#### 2005 hurricanes losses – update

At the end of 2005, we set up claims reserves for the 2005 US hurricanes. Initially we estimated the cost of the hurricanes including reinsurance reinstatement premiums of US\$50m (£30m). During 2006, we have seen positive developments in terms of these costs which have enabled us to release £3.1m of our claims reserve. The chart below shows our latest estimate of the total hurricane losses.

	2006 US\$m	2005 US\$m
<b>Gross loss</b>	<b>171</b>	<b>177</b>
Reinsurance recovery	127	126
<b>Sub total</b>	<b>44</b>	<b>51</b>
Reinstatement premiums	11	10
<b>Net loss</b>	<b>55</b>	<b>61</b>
Catastrophe margin released	11	11
<b>Total hurricane losses</b>	<b>44</b>	<b>50</b>

#### Specialty lines reserve release

In 2006 we released £14.9m of prior year specialty lines reserves. This is a reflection of our view that the claims for the medium tail class of businesses are developing better than initially thought. This is attributed to better management of our pricing for these risks at the time of inception, together with strong claims management disciplines. We have consistently adopted a prudent approach towards our medium tail specialty lines account reserving. The nature of this type of business is that, for the majority of classes of business, the corridor of uncertainty surrounding potential claims is wide in the first three years of development following the underwriting year. As we gain more certainty in years 4 and 5, we have a better view as to where claims are likely to settle and we can adjust our reserves accordingly.

#### Investment performance

	Average balance £m	Return %	Return £m
Syndicate funds (investment grade bonds and cash)			
Sterling	33.0	5.5	1.8
US dollars	324.4	4.1	13.3
Other	40.6	3.2	1.3
<b>Total</b>	<b>398.0</b>	<b>4.1</b>	<b>16.4</b>

In 2006, the syndicate recorded total investment income of £16.7m (2005: £11.4m), providing a return of 4.1% (2005: 2.9%).

During the first half of 2006, the US Federal Reserve continued its programme of raising interest rates in order to slow the rate of growth and contain inflation. The Bank of England also reacted to increasing inflation by raising the base rate twice in the second half of the year. However, for the syndicate, the short duration of our portfolios for most of the year largely insulated our returns from the capital erosion effects of higher interest rates and the portfolios benefited from increasing yields as rates rose.

For regulatory and legal reasons, certain trust funds and deposits are required to be managed centrally by Lloyd's on behalf of the syndicate.

### Expenses

Our expense ratio has increased to 34% (2005: 31%) due to an increase in our infrastructure costs to support the syndicate, enabling tighter controls over our underwriting and claims management. We have also increased our IT infrastructure spend, enhancing our trading platform (Beazley Trade) and support applications, the benefit of which will be realised in future years.

### Employee numbers

During 2006, our permanent UK employee numbers grew from 234 to 304 as we continued our recruitment in the UK by strengthening our specialty lines underwriting and claims teams and the support functions – in particular we insourced the accounting processes during the year. Having talented individuals is key to us achieving our strategy of becoming a premier risk taking business.

The number of employees employed by Beazley Management Limited but working for the combined syndicates at the year end was as follows:

Employee numbers	2006	2005
Reinsurance	9	7
Specialty lines	110	77
Property	37	33
Marine	24	17
Finance (including actuarial, compliance and internal audit)	39	31
IT	38	35
Ceded reinsurance	15	11
Talent management	11	8
General management and other support	21	15
<b>Total</b>	<b>304</b>	<b>234</b>

### Proactively managed claims

#### Unlocking the value in claims

During 2006, we continued to invest in developing our claims service. Improved underwriting and pricing capabilities, maintenance of our high client retention rates, lowered cost of the claims, and improved confidence in our results and reserving, all result in a significant improvement to the service we provide our clients.

70% of our claims managers in specialty lines are sourced from partner and senior associate roles in top law firms. Most managers have over 10 years' experience and expertise in specialist areas, such as insurance of architects and engineers, medical malpractice and employment practices. With the right people in place, we focused our efforts in three areas. We integrated our claims managers and underwriters by product line to give the managers a thorough and detailed understanding of the clients and their claims, enhancing our credibility, essential in third party claims. We adopted a team-based approach to complex claims, and developed analytical tools. We also refined our approach in the selection of counsel and worked closely with them to improve management practices.

In the property group, our claims managers each have at least 14 years' experience and are successful in managing some of the most complex property claims negotiations on behalf of the market. In the marine division, we hired a chief engineer of ships to work closely with us evaluating the claims, finding alternate solutions to mitigating our clients' exposures and our own exposure.

We are confident that the energy invested in this important area will benefit both our clients and shareholders.

### Reinsurance

Reinsurance is purchased for a number of reasons: to mitigate the impact of catastrophes such as those experienced during the 2005 hurricanes, provide lead line capabilities to our underwriters, and as a way of managing the syndicate's capital effectively.

### Individual capital assessment

Historically our capital requirements were set using Lloyd's risk based capital (RBC) model. The RBC model assessed the risk posed by the proposed business plan based on historical market average data. The capital regime changed in 2005, so that syndicates make their own assessment of risk in their individual capital assessment (ICA). 2006 was the first full year where our capital requirements were determined by its ICA.

In order to determine its ICA, we made significant investment in both models and process:

- We use sophisticated mathematical models that reflect the key risks in the business, allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed by individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle.
- The ICA process is embedded so that the teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk reward profile of the business and allows teams to focus on strategies that improve return on capital.

This robust ICA process demonstrates that the business is well diversified and stable. This is reflected in our capital requirement of 42% of premium capacity, a reduction from 47% of premium capacity in 2006.

Prudential risk type	Importance to syndicate	Comment
Insurance	Dominant	This is the largest risk faced by the syndicate as our primary business is to accept insurance and reinsurance risk by means of appropriate premiums to cover claims and operational costs, and to maximise the expected return on regulatory capital.
Credit	Material	Both brokers and reinsurers are of good quality.
Liquidity	Low	This risk is low because the syndicate's assets are liquid and short term.
Market	Material	Syndicate assets are high quality, well diversified and short term.
Operational	Low	We believe our allocation of capital to these risks is cautious and based upon a set of worst case defined scenarios.

### 20th anniversary

2006 marked the 20th year of Beazley Furlonge Limited as a managing agency of Lloyd's.

We began trading in 1986 with capacity to underwrite £12m of premiums. Our aim has been to create and build a premier risk taking business partly through nurturing a working environment that attracts and retains highly skilled individuals. Our growth has been organic and timed to coincide with positive market conditions. We believe that patience and picking the right people have been core to our success.

Over the years, numerous world events have tested our skills and ability to both underwrite high quality risks and manage them. The business has never made a loss and we continue to grow confidently and purposefully.

We have recruited and retained talented individuals – underwriters, claims managers and support staff who have made Beazley the professional, well regarded, premier risk taking business we are today. I'd like to take this opportunity to thank all those who have contributed to making our early vision a reality.

The insurance industry will continue to undergo changes and face challenges brought about by expected and unexpected events. One can be certain that the future holds as much opportunity as we have experienced so far in our journey. The journey is far from over.

### Board changes

Joe Sargent, who chaired Beazley Furlonge Limited between 1993 and 2003, retired during the year. I'd like to extend my thanks to Joe for his considerable contribution and guidance to the syndicate.

### Andrew Beazley

Active underwriter

## Specialty lines

Architects and engineers deliver complex projects with the utmost precision. With industry expertise and in-depth knowledge of the risks involved, our underwriters write insurance for 27 of the top 50 architects and engineers in the US.

	2006 £m	2005 £m
Gross premiums written	100.9	125.3
Net premiums written	76.7	96.3
Net earned premiums	84.4	123.3
Net claims incurred	44.3	86.6
Net operating expenses	24.0	32.9
<b>Technical result</b>	<b>16.1</b>	<b>3.8</b>
Claims ratio	52%	70%
Expense ratio	28%	27%
Combined ratio	80%	97%
Percentage of lead business	81%	74%
Rate decrease	(1%)	(1%)

### Profile

Led by Johnny Rowell since 1992, the specialty lines division is a market leader in most business segments and underwrites around half of the syndicate's premium income. The team is organised by major product group – management liability, professional liability, and political and contingency and by size of risk – small, mid-market and large. This structure was designed to bring together similar disciplines and interests in product line and style of underwriting. These groups do not work in isolation and by sharing experiences, team members transfer best practices across portfolios, working together to improve quality.

We have integrated the specialty lines team across the different territories in which we operate. Specialty lines now have a presence in London, Paris, Hong Kong and eight offices in the US. By establishing experienced, empowered underwriters in local markets we have significantly improved our access to business that we would not otherwise have, and we will continue to pursue this strategy.

### Market overview

The rating environment in 2006 was, overall, better than expected. Across the team, rates fell by 1%. There is variation across different portfolios, with rate increases still achievable in some lines and competition intensifying in others. We expect competition to increase slightly in 2007. The team's approach to managing this is multi-tiered, including close monitoring of rate changes and rates achieved, increased segmentation of individual books of business, robust auditing of internal underwriting teams, delegated authority and treaty business and targeted reviews of both high-performing and under-performing areas.

### Current performance

2006 was the first complete trading year for our US-based operation. Our local presence in the US market has been well received and the growth rate in income achieved to date is very satisfactory.

On both sides of the Atlantic we made significant investments in talent, strengthening our claims service as well as our underwriting capabilities. We see significant opportunities to differentiate ourselves through the calibre of our claims managers and the quality of the service they provide. This has not always been an area of focus for insurers in our markets.

Our sources of business remained stable in 2006 with the top five brokers producing 54% of our premium income, against 53% in 2005 and 52% in 2004. Geographically the book remains predominately US domiciled, with 65% of premiums emanating from that region compared to 62% in 2005 and 63% in 2004.

The way we write the business has changed little from previous years. Facultative business accounted for 67% of our premium in 2006 compared to 68% in 2005 and 73% for 2004, while binding authority income was 21% for 2006 against 24% in 2005 and 20% in 2004.

### Outlook

Our goal in 2007 is to ensure that our mix of products and segments (business by size and method of placement) evolves to maximise opportunities in the marketplace. In a changing environment we will need to react quickly to both opportunities and threats.

Overall, we expect premiums to remain stable in 2007, although their distribution may change slightly. We expect our US, French and Hong Kong operations will grow and we will continue to invest in a number of our London teams. We recognise the value that clients and brokers place on the provision of stable coverage and will work to deliver this, consistent with the demands of profitability.

With a successful year of high-calibre recruitment behind us, our focus in 2007 will be on retaining and developing employees. Responsive service – both in underwriting and claims – will remain at the heart of our business, supported by financial, operations and project management expertise. Our commitment to service excellence, in-depth risk analysis and understanding and delivering products that meet broker and client needs will continue to underpin sustainable long-term profitability.

## Property

The financial security provided by insurance underpins the success of commerce in the modern world. Our property underwriters provide the leadership, expertise and capacity for the insurance programmes of some of the world's most advanced and complex commercial developments.

	2006 £m	2005 £m
Gross premiums written	52.2	59.1
Net premiums written	41.5	45.2
Net earned premiums	43.9	53.4
Net claims incurred	24.5	29.2
Net operating expenses	18.9	21.4
<b>Technical result</b>	<b>0.5</b>	<b>2.8</b>
Claims ratio	56%	55%
Expense ratio	43%	40%
Combined ratio	99%	95%
Percentage of lead business	70%	66%
Rate increase/(decrease)	13%	(1%)

## Profile

Led by Jonathan Gray since 1992, the specialist underwriting teams in the property group lead the programmes of Fortune 1000 clients and insure some of the world's largest construction projects. The division insures large corporate clients, engineering and construction projects, high-value homeowners, jewelers' risks and smaller property clients, representing almost a quarter of the syndicate's gross premiums written.

## Market overview

Rates in catastrophe exposed areas in the US continued to harden during the course of 2006 with hurricane prices reaching an all-time peak during the hurricane season. Earthquake rates in California also increased during the latter part of the year as increased reinsurance costs filtered down to the primary market. However, non-US rating levels were disappointing with competitive conditions a consistent theme throughout the year. There was little or no pricing reaction in the non-US markets to the hurricane losses of 2004 and 2005.

2006 saw a benign hurricane season and the absence of major catastrophes in comparison with recent years. In addition, the underlying trend of claims incidences also showed a decrease.

### Current performance

The amount of business led by the property group increased during 2006 from 66% of the business written in 2005 to 70% in 2006 with the biggest increase being in the open market account, where we now lead 53% of the business written.

Rate increases averaged 13% across all lines in the property group during 2006 compared to 2005, with open market experiencing the largest increase at 27%.

Our managing general agent (MGA) in Florida had a successful year, with premiums written increasing from US\$6.2m in 2005 to US\$10.3m in 2006.

The engineering team had another excellent year in 2006, growing its business profitably and consolidating its lead market position in their target areas. To widen the distribution network and access business directly from Asia, we set up an office in Singapore attracting employees already well known to the London team.

The UK homeowner market is experiencing increasing competition. To improve our results, we have completely reviewed and updated our UK homeowners rating tables using the latest peril modeling techniques and postcode data available, which will enhance our risk selection criteria.

Our reputation as property insurance specialists, combined with a claims performance acknowledged by the market as superior, gave us access to significant reinsurance capacity. However, the cost of this reinsurance was higher than previous years and retention levels increased.

### Outlook

We believe that high rating levels for catastrophe business will be maintained in the coming year, providing syndicate 623 with strong business opportunities for US-based risks. Non-catastrophe rates will experience further pressure.

## Reinsurance

The calculation and trading of risk is a highly complex process fundamental to the insurance and reinsurance business. Experience and innovation, combined with a focus on long-term relationships, have enabled our reinsurance team to work successfully with some of the world's most sophisticated insurance businesses for over 20 years.

	2006 £m	2005 £m
Gross premiums written	16.9	28.2
Net premiums written	11.5	17.0
Net earned premiums	13.6	17.6
Net claims incurred	3.4	22.1
Net operating expenses	5.3	6.4
<b>Technical result</b>	<b>4.9</b>	<b>(10.9)</b>
Claims ratio	25%	126%
Expense ratio	39%	36%
Combined ratio	64%	162%
Percentage of lead business	33%	28%
Rate increase	28%	–

## Profile

Led by Neil Maidment since 1996, the reinsurance division is a recognised leader providing capacity to a significant proportion of the world's leading general insurers, some of which have been clients for over 20 years. Specialising in property catastrophe, property risk excess, casualty catastrophe, aggregate excess of loss and pro-rata business, the team's main exposures outside the US are in the UK, Europe, Japan, Canada and Australasia. Results from the reinsurance division represent 8% of the syndicate's 2006 gross premiums written.

## Market overview

Following the losses incurred by the hurricane season in 2005, the reinsurance market hardened considerably in 2006 with rates in the property treaty market increasing 47% on average in the US. Outside the US, the effect was less dramatic but nevertheless rates increased 7.0% on average.

Despite predictions of another catastrophic hurricane season in the North Atlantic, 2006 proved to be a particularly benign year for hurricane activity. Experts cite two possible exceptional meteorological reasons for this: dust particles blown from the Sahara to the area where hurricanes normally develop, and the El Niño phenomenon in the Pacific. While the insurance market benefited overall, demand also increased at a faster rate than supply in peak zones of exposure. Prices increased and reinsurance capacity decreased.

### Current performance

The impact of predicted increases in near term frequency and severity of future losses and the consequent increase in capital required to manage these exposures have been felt by both buyers and sellers of reinsurance. The cost of hedging these risks increased to uncommercial levels in the retrocessional market. Therefore, we reduced our gross exposures to fit within our risk appetite which remained unchanged.

We successfully adjusted the portfolio to manage these challenges while improving the risk/reward balance. In addition, we retained our commitment to our long-term clients, while continuing to diversify our portfolio in target markets, such as western Europe.

We benefited directly from the quiet hurricane season, seeing very low claims activity and consequently a greatly reduced loss ratio.

Our estimate for losses incurred as a result of the 2005 hurricane season were well within our reserve limits, hence we are able to release some of the reserves earlier than expected.

### Outlook

Experts continue to predict Atlantic hurricane activity above the long term average and, because of the trend for the US population to move towards the coast, we expect to see an increase in the cost to the insurance and reinsurance industry.

Following last year's significant price increases in the US, we expect that rates in key catastrophe exposed areas will be maintained at or around their current levels. The recent changes in Florida legislation designed to relieve pressure on buyers in that state are not expected to have a significant direct effect on our portfolio.

Outside the US, we anticipate some pressure on rates, particularly in smaller markets, however they will remain at levels that are capable of substantial profits. It is anticipated that the impact of windstorm Kyrill will encourage greater discipline in the UK and continental European markets.

Our team will continue to advance its long-term objective of developing a well diversified and efficient portfolio focusing on larger non-life insurance markets.

## Marine

As the worldwide demand for energy continues to grow, environmental responsibility increasingly is a key issue. Governments are focusing on clean alternatives, particularly forms of renewal energy. We are one of the leading insurers for oil and gas operations worldwide and at the forefront of insuring these developing areas of risk.

	2006 £m	2005 £m
Gross premiums written	42.5	45.4
Net premiums written	35.2	37.3
Net earned premiums	37.2	41.6
Net claims incurred	12.4	19.9
Net operating expenses	12.5	12.8
<b>Technical result</b>	<b>12.3</b>	<b>8.9</b>
Claims ratio	33%	48%
Expense ratio	34%	31%
Combined ratio	67%	79%
Percentage of lead business	50%	52%
Rate increase	9%	2%

## Profile

Led by Clive Washbourn since 1998, 2006 was a rewarding year for the marine division with gross premium written of £42.5m and a technical result of £12.3m. We are established leaders in all the major classes we write, which include marine hull, cargo and war. Our energy portfolio has also been expanded to benefit from optimum underwriting conditions in that sector.

We are able to attract the highest quality business through our market leadership position and in-depth knowledge of the segment. As our portfolio has grown, we have continued to strengthen our underwriting and claims team.

## Market overview

Underwriting conditions were favourable for most of our classes during 2006 with healthy premium rates and appropriate levels of deductible and coverage. We saw strong, profitable premium growth, with our marine hull and energy accounts performing particularly well.

Our 2005 hurricane losses developed in line with projections and compare favourably with our market peers. We are confident that the majority of our gross loss will be collectable from reinsurers.

### Current performance

In the wake of a record 2005 hurricane season, underwriting conditions in our energy account were excellent with rating conditions for Gulf of Mexico risks at the highest levels for many decades. During 2006 the energy class achieved the highest composite rate change of all Beazley classes, which supported the near doubling of gross premium income year on year. Although there is some indication of competitors expanding their capacity as confidence returns to the sector, we expect rating conditions to be stable.

Our hull account has benefited from a period of relatively benign loss frequency coupled with robust trading conditions for our insured. In areas such as marine builder's risks, the hull account was also able to optimise capacity in a tight market for risks that have natural peril exposure. We continue to be the leader in London for voyage and tow insurances and this class has performed extremely well during the past 12 months.

Our war account which covers insurance against terrorism and war-like acts on ships and aeroplanes, continues to perform well. Competition for this portfolio has increased although our position as a lead market within London will allow us to respond quickly if rates rise at any stage.

Our cargo portfolio has enjoyed a consistent level of gross premiums. Loss frequency reduced during the past 12 months, which has benefited profitability. We continue to develop our modest UK cargo agency underwriting operation. Profitability to date has been excellent, premium levels are projected to double during the next 12 months and there is a good long-term opportunity to develop a valuable portfolio and diversify our account.

We purchased a whole account excess of loss reinsurance programme in 2006, as in previous years, but opted to purchase less low level specific protection. This decision to purchase less reinsurance proved particularly judicious in the light of the low claims frequency across classes during 2006.

### Outlook

We look forward to 2007 as a period in which we can further consolidate our position. We are pleased with the quality of our account and anticipate relatively stable underwriting conditions in the majority of our classes. We fully expect to meet our target profitability and to continue to grow income where opportunity allows.

We are delighted that we have reached a long term agreement to be sole underwriters of the renewal rights for the Charterers Club, which significantly enhances our marine liability portfolio. The marine liability class has historically enjoyed good profitability and since this class typically does not correlate with our other marine classes, it further diversifies our portfolio.

We will continue to focus on those risks that are well known to the underwriting and claims team. The relationships with the insured often set us apart from our competitors and this, we believe, will help insulate the division from the effects of increased competition in the worldwide market that we believe likely to develop in future years.

## Managing agent's report

The managing agent presents its report for the year ended 31 December 2006.

### Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 1985, applicable Accounting Standards in the UK and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2006 (the ABI SORP).

### Risk management

The agency has identified the risks arising from its activities and has established policies and procedures to manage these in accordance with its risk appetite. From the agent's perspective, to ensure that only the best risk management approaches are applied to all of our activities, every action is based on three guiding principles:

- Controlled risk taking;
- Clear accountability; and
- Open risk culture.

By focusing on these principles, the agency can manage the diverse risk classes to achieve the ideal balance between risk management control and encouraging the underwriting teams to be professional, innovative, effective and dynamic.

Enterprise risk management is integral to the business planning and risk taking activity. By allocating capital to each underwriting segment and regularly reviewing returns, we manage our portfolio in a way that supports the core markets and targets growth on the best opportunities as they arrive.

### Risk management team

The purpose of the risk management team is to facilitate and strengthen the risk management framework. Their main goal is to help the business to achieve a consistent approach to the identification, measurement and mitigation of risk across the syndicate. Active participation of this team in all board meetings and senior management committees ensures that risks are monitored and managed as they arise.

This team uses a leading edge system called the BeazleyRiskMatrix to support its work. This online risk management tool allows the emerging risk profile to be captured and analysed in real time using information input directly by risk and control owners across our worldwide locations.

### Key risks

The agency has five primary categories of risk that arise from its activities and are discussed in the table:

#### Insurance risk

Insurance risk arises from the inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance, claims management, reserving and ultimate reserves. Each element is considered below.

#### Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the agent:

- Event risk – the risk that the individual risk losses or catastrophes lead to claims that are –higher than anticipated in plans and pricing;
- Pricing risk – the risk that the level of expected loss is understated in the pricing process;
- Cycle risk – the risk that business is written in a soft market without full knowledge as to the (in)adequacy of rates, terms and conditions; and
- Expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

The agent's underwriting strategy is to seek a diversified and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different classes of business. Annual business plans for each underwriting team reflect the overall underwriting strategy and are approved by the board. In addition, these plans are monitored monthly by the underwriting committee.

<b>RISK</b>	<b>Insurance</b>	Underwriting Reinsurance Claims management Reserving & ultimate reserves
	<b>Credit</b>	Reinsurers Brokers & intermediaries Investments
	<b>Liquidity</b>	Insurance & non-insurance cash calls
	<b>Market</b>	Foreign exchange Interest rate Price
	<b>Operational</b>	People Process Regulation Service provider Business continuity Information security Financial reporting Data integrity Legal

### *Reinsurance risk*

Reinsurance risk arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, resulting in coverage disputes, or prove inadequate in terms of the vertical or horizontal limits purchased.

The reinsurance programmes are determined from the underwriting team business plans and seek to protect syndicate capital from an adverse volume or volatility of claims on both a per risk and per event basis. In some cases it is deemed more economic to hold capital rather than purchase reinsurance. This is reviewed regularly as an integral part of the business planning and performance monitoring process.

The Reinsurance Security Committee (RSC) examines and approves all reinsurers to ensure that they possess suitable security. The RSC also establish limits for the reinsurance programme regarding quality and quantity. The ceded reinsurance team maintains the list of these approved reinsurers and no treaty reinsurance is placed without prior referral from this team. The team also monitors erosion of the reinsurance programme and its ongoing adequacy.

### *Claims management risk*

Claims management risk may arise in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. The agency's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses.

### *Reserving and ultimate reserves risk*

Reserving and ultimate reserves risk occurs where established insurance liabilities are insufficient through inaccurate forecasting or where there is inadequate allowance for expenses and reinsurance bad debts in provisions.

To manage reserving and ultimate reserves risk, the agent's experienced actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress test ultimate insurance liability balances. An external independent actuary also performs an annual review to produce a statement of actuarial opinion for reporting entities within the syndicate.

The objective of the agent's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The estimates of gross premiums written and claims prepared by the actuarial department are used through a formal quarterly peer review process to independently check the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, actuarial, claims and finance representatives.

### *Credit risk*

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the syndicate are:

- Reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the agent;
- Brokers and intermediaries – whereby counterparties fail to pass on premium or claims collected or paid on behalf of the agent; and
- Investments – whereby issuer default results in the agent losing all or part of the value a financial instrument.

The agent's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the agent's capital from erosion so that it can meet its insurance liabilities.

Processes have been developed to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the RSC, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

An approval system also exists for all new brokers, and broker performance and credit collection are reviewed regularly.

The investments committee has established guidelines for the agent's investment managers regarding the type, duration and quality of investments acceptable to the agent. The performance of investment managers is reviewed regularly to confirm adherence to these guidelines.

### *Liquidity risk*

The agency is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost.

The agent's approach is to manage its liquidity position so that it can significantly survive a significant loss event. This means that the agent maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without capital loss, to meet the expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return.

### Market risk

Market risk arises where the value of assets and liabilities change as a result of movements in foreign exchange rates, interest rates and market prices.

The agent manages interest rate risk by investing in short duration financial investments and cash and cash equivalents. The investment committee monitors the duration of these assets on a regular basis.

Price risk is managed by maintaining a diversified portfolio with high quality, liquid securities. The investment committee has established guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.

### Operational risk

Operational risk arises from the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events.

The agent actively manages these risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The agent also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of the control environment include:

- ICA modelling of operational risk exposure and scenario testing;
- Management review of activities;
- Documentation of policies and procedures;
- Contingency planning; and
- Other systems controls.

## Directors

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

	2004 year of account capacity £	2005 year of account capacity £	2006 year of account capacity £	2007 year of account capacity £
J G W Agnew	–	70,000	78,253	–
A F Beazley	1,357,710	1,025,095	1,395,953	2,124,477
N H Furlonge	132,000	111,841	211,819	232,558
J G Gray	132,000	111,841	111,841	122,791
D A Horton	132,000	111,841	111,841	232,558
N P Maidment	132,000	111,841	111,841	122,791
J G Rowell	1,116,100	1,250,000	1,600,000	2,048,954
J D Sargent*	870,400	–	–	–
A R Manners	500,000	558,950	558,950	558,950
C A Washbourn	129,643	109,843	109,843	120,598

\* Resigned on 31 October 2006.

J D Fishburn, G P Blunden and A D Pomfret did not participate on the syndicate.

## Annual general meeting

In accordance with the Byelaws, an application has been made to the Council of Lloyds to waive the requirement for having a syndicate annual general meeting as it is intended to re-appoint KPMG as auditors. As there is no other business to consider at the meeting, no annual general meeting of the syndicate will be held.

## Disclosure of information to the auditors

The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the syndicate's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

## Statement of managing agent's responsibilities

The directors of the managing agent are responsible for preparing the managing agent's report and the financial statements in accordance with applicable law and regulations. Company law requires the directors of the managing agent to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards. The financial statements are required by law to give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

In preparing those syndicate annual accounts, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the syndicate will continue in business.

The directors of the managing agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the syndicate and to prevent and detect fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing preparation and dissemination of financial statements may differ from legislations in other jurisdictions.

By order of the Board

**DA Horton**

Director

9 March 2007

## Independent auditor's report to the members of Syndicate 623

We have audited the syndicate annual accounts for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 19. The syndicate annual accounts have been prepared under the accounting policies set out therein.

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of managing agent and auditor

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities on page 17.

Our responsibility is to audit the syndicate annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate annual accounts give a true and fair view and are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you if in our opinion the managing agent's report is not consistent with the syndicate annual accounts, if the managing agent has not kept proper accounting records in respect of that syndicate, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding remuneration of the directors of the managing agent and other transactions is not disclosed.

We read the other information attached to the syndicate annual accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate annual accounts. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate annual accounts, 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 syndicate annual accounts are 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 syndicate annual accounts.

### Opinion

In our opinion:

- The syndicate annual accounts give a true and fair view in accordance with UK Generally Accepted Accounting Practice, of the state of syndicate 623's affairs as at 31 December 2006 and of its profit for the year then ended;
- The syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- The information given in the managing agent's report is consistent with the syndicate annual accounts.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
9 March 2007

Profit and loss account: technical account  
Year ended 31 December 2006

	Notes	2006 £m	2005 £m
Gross premiums written	3	212.5	258.0
Outward reinsurance premiums		(47.6)	(62.2)
Net premiums written		164.9	195.8
Change in the gross provision for unearned premiums		17.1	45.1
Change in the provision for unearned premiums, reinsurers' share		(2.9)	(5.0)
Change in the net provision for unearned premiums		14.2	40.1
<b>Net earned premiums</b>		<b>179.1</b>	<b>235.9</b>
Allocated investment return transferred from the non-technical account		16.4	11.4
Claims paid			
– Gross amount		(155.5)	(114.1)
– Reinsurers' share		75.8	25.9
Net claims paid		(79.7)	(88.2)
Change in the gross provision for claims		41.4	(140.0)
Change in the provision for claims, reinsurers' share		(46.3)	70.4
Change in the net provision for claims		(4.9)	(69.6)
<b>Net claims incurred</b>		<b>(84.6)</b>	<b>(157.8)</b>
<b>Net operating expenses</b>	5	<b>(65.2)</b>	<b>(66.2)</b>
<b>Balance on the technical account</b>		<b>45.7</b>	<b>23.3</b>

All of the above operations are continuing.

Profit and loss account: non-technical account  
 Year ended 31 December 2006

	Notes	2006 £m	2005 £m
<b>Balance on the technical account</b>		<b>45.7</b>	<b>23.3</b>
Investment income	9	16.8	11.8
Investment expenses and charges, including value adjustments		(0.3)	(0.3)
Unrealised losses on investments		(0.1)	(0.1)
Allocated investment return transferred to general business technical account		16.4	11.4
Other charges	10	(16.4)	(11.4)
<b>Retained profit for the financial year</b>		<b>40.2</b>	<b>17.1</b>

## Statement of total recognised gains and losses

Year ended 31 December 2006

	2006 £m	2005 £m
Profit for the financial year	40.2	17.1
Foreign exchange on brought forward reserves	(1.5)	–
Prior year adjustment	–	(316.9)
Total recognised gains and losses since last annual report	38.7	(299.8)

### Prior year adjustment – 2005

The move from reporting on a three-year funded basis to the annual basis of accounting represented a fundamental change in the reporting basis in 2005 rather than a series of changes of accounting policies. The net effect of the change is reflected in a prior year adjustment to members' balances shown in note 14. The amounts reported in 2006 have been accounted for on an annual basis of accounting and consequently no adjustment is necessary.

## Balance sheet

As at 31 December 2006

Assets	Notes	2006 £m	2005 £m
<b>Investments</b>			
Financial investments	11	309.9	358.9
Deposits with ceding undertakings		0.1	0.1
		<b>310.0</b>	<b>359.0</b>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums, reinsurers' share	4	20.7	26.2
Claims outstanding, reinsurers' share	4	161.8	238.5
		<b>182.5</b>	<b>264.7</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations		53.6	69.6
Debtors arising out of reinsurance operations		15.6	15.1
Other debtors	12	13.6	47.4
		<b>82.8</b>	<b>132.1</b>
Cash at bank and in hand	13	55.9	70.8
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		22.5	25.8
Accrued interest and rent		–	0.7
Other prepayments and accrued income		0.5	3.3
		<b>23.0</b>	<b>29.8</b>
<b>Total assets</b>		<b>654.2</b>	<b>856.4</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Members' balances attributable to underwriting participations	14	20.9	30.3
<b>Technical provisions</b>			
Provision for unearned premiums	4	100.1	127.9
Claims outstanding	4	496.8	614.9
		<b>596.9</b>	<b>742.8</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		20.4	38.0
Creditors arising out of reinsurance operations		3.1	2.4
Accruals and deferred income		1.5	3.5
Other creditors	15	11.4	39.4
		<b>36.4</b>	<b>83.3</b>
<b>Total liabilities, capital and reserves</b>		<b>654.2</b>	<b>856.4</b>

The financial statements on pages 20 to 31 were approved by the Board of Beazley Furlonge Limited on 9 March 2007 and were signed on its behalf by:

**A F Beazley** (Active underwriter)  
**D A Horton** (Finance director)

## Statement of cash flows

Year ended 31 December 2006

	Notes	2006 £m	2005 £m
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit on ordinary activities		40.2	17.1
Unrealised investments gains/(losses)		–	0.1
Foreign exchange on brought forward investments		18.6	–
Foreign exchange adjustment on brought forward reserves		(1.5)	–
Decrease in net technical provisions		(79.3)	(12.3)
(Increase)/decrease in debtors		55.2	(11.6)
Increase/(decrease) in creditors		(31.4)	14.0
<b>Net cash inflow from operating activities</b>		<b>1.8</b>	<b>7.3</b>
Transfer to members in respect of underwriting participations		(47.1)	(47.2)
	<b>17</b>	<b>(45.3)</b>	<b>(39.9)</b>
<b>Cash flows were invested as follows:</b>			
Increase/(decrease) in cash holdings		(11.6)	8.7
Decrease in overseas deposits		(3.3)	(3.2)
Decrease in deposits received from reinsurers		–	0.4
Decrease in debt securities and other fixed income securities		(30.4)	(45.8)
<b>Net investment of cash flows</b>	<b>17</b>	<b>(45.3)</b>	<b>(39.9)</b>

## Notes to the financial statements

### 1. Basis of preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2006 ("the ABI SORP").

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in sterling and millions, unless noted otherwise.

### 2. Accounting policies

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

#### Premiums

Gross premiums written comprise premiums on contracts inception during the financial year. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods.

#### Unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date. It is calculated using the daily pro-rata method where the premium is apportioned over the period of risk.

#### Claims

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported (IBNR) and future claims handling provisions. Reinsurance recoveries are accounted for in the same period as the incurred claims for the related business.

The provision for claims comprises amounts set aside for claims advised and IBNR. The IBNR amount is based on estimates calculated using widely accepted statistical techniques (e.g. "chain ladder") which are reviewed annually by external consulting actuaries. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. For more recent underwriting, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating claims provisions are that the past experience is a reasonable predictor of likely future claims development and that the rating and other models used to analyse current business are a fair reflection of the likely level of ultimate claims to be incurred.

The reinsurers' share of provisions for claims is based on calculated amounts for outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

#### Acquisition costs

Acquisition costs comprise brokerage, staff and staff related costs of the underwriters acquiring the business, and premium levy. The proportion of acquisition costs in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premiums are earned.

#### Foreign currencies

Income and expenditure in US dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period.

Syndicate assets and liabilities are translated into sterling at the rates of exchange at the balance sheet dates unless contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates have been used. Foreign exchange differences on opening reserves are taken through the statement of recognised gains and losses. All other differences arising on translation of foreign currency amounts in syndicates are included in the profit and loss account.

#### Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid-market value and deposits with credit institutions and overseas deposits are stated at cost.

### Investment return

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

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

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

### Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 30%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

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

### Pension costs

Beazley Furlong Limited operates both a defined benefit and a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

## 3. Segmental analysis

2006	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Unallocated £m	Total £m
Gross premiums written	100.9	52.2	16.9	42.5	–	212.5
Net premiums written	76.7	41.5	11.5	35.2	–	164.9
Gross earned premiums	110.9	54.9	19.3	44.6	–	229.7
Outward reinsurance premiums	(26.5)	(11.0)	(5.7)	(7.4)	–	(50.6)
Net earned premiums	84.4	43.9	13.6	37.2	–	179.1
Gross claims	(58.3)	(30.0)	(7.2)	(18.6)	–	(114.1)
Reinsurers' share	14.0	5.5	3.8	6.2	–	29.5
Net claims	(44.3)	(24.5)	(3.4)	(12.4)	–	(84.6)
Operating expenses before foreign exchange	(24.0)	(18.9)	(5.3)	(12.5)	–	(60.7)
Technical result before investment income	16.1	0.5	4.9	12.3	–	33.8
Loss on exchange	–	–	–	–	(4.5)	(4.5)
Investment income	–	–	–	–	16.4	16.4
Balance on technical account	16.1	0.5	4.9	12.3	11.9	45.7
Claims ratio	52%	56%	25%	33%	–	47%
Expenses ratio	28%	43%	39%	34%	–	34%
Combined ratio	80%	99%	64%	67%	–	81%

2005	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Unallocated £m	Total £m
Gross premiums written	125.3	59.1	28.2	45.4	–	258.0
Net premiums written	96.3	45.2	17.0	37.3	–	195.8
Gross earned premiums	154.2	69.1	30.0	49.8	–	303.1
Outward reinsurance premiums	(30.9)	(15.7)	(12.4)	(8.2)	–	(67.2)
Net earned premiums	123.3	53.4	17.6	41.6	–	235.9
Gross claims	(115.0)	(49.4)	(51.3)	(38.4)	–	(254.1)
Reinsurers' share	28.4	20.2	29.2	18.5	–	96.3
Net claims	(86.6)	(29.2)	(22.1)	(19.9)	–	(157.8)
Operating expenses before foreign exchange	(32.9)	(21.4)	(6.4)	(12.8)	–	(73.5)
Technical result before investment income	3.8	2.8	(10.9)	8.9	–	4.6
Profit on exchange	–	–	–	–	7.3	7.3
Investment income	–	–	–	–	11.4	11.4
Balance on technical account	3.8	2.8	(10.9)	8.9	18.7	23.3
Claims ratio	70%	55%	126%	48%	–	67%
Expenses ratio	27%	40%	36%	31%	–	31%
Combined ratio	97%	95%	162%	79%	–	98%

All premiums were written in the UK.

The expense ratios shown above are calculated excluding any profit or loss on exchange.

The above teams are classified in Schedule 9a of the Companies Act 1985 as:

- Specialty lines = Third party liability;
- Property = Fire and other damage to property;
- Reinsurance = Reinsurance; and
- Marine = Marine, aviation and transport

#### Geographical origin of gross direct premiums written

An analysis of gross direct premiums written by reference to the situs of the risk is provided below:

	2006 £m	2005 £m
Risks located in UK	29.7	36.5
Risks located in other member states of the EU	19.1	20.6
Risks located in other countries	163.7	200.9
<b>Gross premiums written</b>	<b>212.5</b>	<b>258.0</b>

#### 4. Technical provisions

	Provision for unearned premiums £m	Claims outstanding £m
<b>Gross technical provisions</b>		
As at 1 January 2006	127.9	614.9
RITC transferred to syndicate 2623	–	(23.5)
Exchange adjustments	(10.6)	(53.2)
Movement in the provision	(17.2)	(41.4)
<b>As at 31 December 2006</b>	<b>100.1</b>	<b>496.8</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2006	26.2	238.5
RITC transferred to syndicate 2623	–	(9.3)
Exchange adjustments	(2.5)	(21.1)
Movement in the provision	(3.0)	(46.3)
<b>As at 31 December 2006</b>	<b>20.7</b>	<b>161.8</b>
<b>Net technical provisions</b>		
As at 1 January 2006	101.7	376.4
<b>As at 31 December 2006</b>	<b>79.4</b>	<b>335.0</b>

#### 5. Net operating expenses

	2006 £m	2005 £m
Acquisition costs	44.8	53.2
Change in deferred acquisition costs	1.6	8.1
Loss/(profit) on exchange	4.5	(7.3)
Administrative expenses	14.3	12.2
	<b>65.2</b>	<b>66.2</b>
<b>Administrative expenses include:</b>		
Fees payable to the syndicate auditor for the audit of the syndicate annual accounts		
Audit services	0.1	0.1

Total commissions for direct insurance accounted for in the year amounted to £42.9m (2005: £49.0m). Total fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to £1.1m (2005: £1.3m). In addition, £15.7m (2005: £14.3m) of administrative, claims handling and underwriting costs was recharged to the syndicate from Beazley Furlonge Limited in respect of expenses incurred by Beazley Furlonge Limited on behalf of the syndicate.

**6. Staff costs**

All staff are employed by Beazley Management Limited. The following amounts were recharged to the syndicate in respect of salary costs:

	2006 £m	2005 £m
Wages and salaries	4.9	5.3
Short-term incentive payments	1.3	0.8
Social security costs	0.7	0.6
Pension costs	0.9	1.1
	<b>7.8</b>	<b>7.8</b>

**7. Emoluments of the directors of Beazley Furlonge Limited**

The directors of Beazley Furlonge Limited received the following aggregate remuneration charged to syndicate 623 and included within net operating expenses:

	2006 £m	2005 £m
Emoluments and fees	1.7	1.5
Contributions to defined contribution pension schemes	0.1	0.1
	<b>1.8</b>	<b>1.6</b>

**8. Active underwriter's emoluments**

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 623, was £0.4m (2005: £0.3m). The active underwriter was also the highest paid director.

**9. Investment income**

	2006 £m	2005 £m
Income from investments	18.3	17.5
Realised losses on investments	(1.5)	(5.7)
	<b>16.8</b>	<b>11.8</b>

**10. Other charges**

	2006 £m	2005 £m
Profit commissions	5.5	6.2

**11. Financial investments**

	Market value 2006 £m	2005 £m	Cost 2006 £m	2005 £m
Debt securities				
– fixed interest	221.7	310.9	221.7	310.8
– floating interest	88.2	48.0	88.2	48.9
	<b>309.9</b>	<b>358.9</b>	<b>309.9</b>	<b>359.7</b>

## 12. Other debtors

	2006 £m	2005 £m
Amount due from syndicate 2623	7.0	40.0
Amounts due from members	3.6	4.6
Sundry debtors	3.0	2.8
	<b>13.6</b>	<b>47.4</b>

All insurance debtors relate to business transacted with brokers and intermediaries. These balances are due within one year. The amount due from syndicate 2623 is offset against the amounts due to other Beazley group companies, leaving a net balance of £6.4m. Any balances between syndicate 623 and Beazley group companies are treated as arm's length transactions. Interest is charged on these balances at commercial rates.

## 13. Cash at bank and in hand

	2006 £m	2005 £m
Cash at bank and in hand	11.7	23.3
Overseas deposits	44.2	47.5
	<b>55.9</b>	<b>70.8</b>

Overseas deposits are held as a condition of conducting underwriting business in certain countries.

## 14. Reconciliation of members' balances

	2006 £m	2005 £m
Members' balances brought forward at 1 January	30.3	379.0
Prior year adjustment	–	(316.9)
Members' balances restated at 1 January	30.3	62.1
Profit for the year	40.2	17.1
Foreign exchange on brought forward reserves	(1.5)	
Advance distributions	(6.5)	(9.7)
Profit distribution before members agent's fees – 2002 year of account	–	(39.2)
Profit distribution before members agent's fees – 2003 year of account	(41.6)	–
<b>Members' balances carried forward at 31 December</b>	<b>20.9</b>	<b>30.3</b>

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

The profit distribution before members agent's fees – 2002 year of account includes £9.8m paid to the members on syndicate 2623 for the 2002 year of account. The capital for syndicate 2623 in 2002 was provided by Berkshire Hathaway as part of a qualifying quota share agreement.

## 15. Other creditors

	2006 £m	2005 £m
Profit commissions	6.3	13.3
Sundry creditors including taxation and social security	5.1	26.1
	<b>11.4</b>	<b>39.4</b>

## 16. Movement in opening and closing investments net of financing

	2006 £m	2005 £m
Net cash inflow from the year	(14.9)	5.5
Cash flow – investments	(30.4)	(45.4)
Movement arising from cash flows	(45.3)	(39.9)
Changes in market value	–	(0.1)
Foreign exchange on brought forward investments	(18.6)	–
Total movement in investments net of financing	(63.9)	(40.0)
Investments as at 1 January	429.8	469.8
<b>Investments as at 31 December</b>	<b>365.9</b>	<b>429.8</b>

Of the cash outflow during the year £13.5m was transferred to syndicate 2623 as part of the reinsurance to close.

## 17. Movement in cash and investments

	At 1 January 2006 £m	Cash flow £m	Changes to market value and currencies £m	At 31 December 2006 £m
Cash at bank and in hand	23.3	(11.6)	–	11.7
Overseas deposits	47.5	(3.3)	–	44.2
	<b>70.8</b>	<b>(14.9)</b>	<b>–</b>	<b>55.9</b>
<b>Investments</b>				
Debt securities and other fixed income securities	358.5	(30.4)	(18.6)	309.5
Deposit with credit institutions	0.4	–	–	0.4
Deposits with ceding undertakings	0.1	–	–	0.1
<b>Total investments</b>	<b>359.0</b>	<b>(30.4)</b>	<b>(18.6)</b>	<b>310.0</b>
<b>Total cash and investments</b>	<b>429.8</b>	<b>(45.3)</b>	<b>(18.6)</b>	<b>365.9</b>

## 18. Related parties transactions

Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley Group Plc. The directors of Beazley Group Plc have participated in syndicate 623 either directly through NameCos or indirectly through Beazley Staff Underwriting Limited. Details of the participations are disclosed in the managing agent's report on page 17.

The directors have shareholdings in Beazley Group Plc which provides the capacity for syndicate 2623. Syndicate 2623 has capacity of £647m, as disclosed already in this report, and writes in parallel with syndicate 623. Beneficial shareholdings are shown below:

	Shareholding of Beazley Group plc as at 31 December 2006	Shareholding of Beazley Group plc as at 31 December 2005
J G W Agnew	114,263	114,263
A F Beazley	7,117,850	7,009,905
G P Blunden	72,713	72,713
J D Fishburn	15,714	15,714
N H Furlonge	2,510,831	2,510,831
J G Gray	3,381,749	3,368,805
D A Horton	36,461	36,461
N P Maidment	2,958,251	2,945,307
A R Manners	982,517	969,572
A D Pomfret	16,500	16,500
J G Rowell	4,783,608	4,120,663
J D Sargent*	–	1,292,193
C A Washbourn	–	327,865

\* Resigned on 31 October 2006

N H Furlonge had a shareholding of approximately 5% in D3 Human Resources Limited, which provided Beazley Furlonge Limited with consultancy advice on training. D3 Human Resources Limited receives fees, on normal commercial terms, for the services it provides to Beazley Furlonge Limited. He had disposed of the holdings by 31 December 2006.

The syndicate paid AllianceBernstein Fixed Income Limited £0.3m in 2006 (2005: £0.6m) in respect of the investment services provided. G P Blunden, a non-executive director of Beazley Furlonge Limited, is an employee of AllianceBernstein Fixed Income Limited and a member of the investment committee.

Beazley has the following service companies (managing general agents):

- Beazley Solutions Ltd – (UK & Europe);
- Beazley USA Inc – (USA);
- Beazley Limited – (Hong Kong); and
- Beazley Pte Limited – (Singapore)

all of which are cover holders for syndicates 623 / 2623.

The syndicates will be charged commissions at appropriate and competitive market rates for the type of business underwritten by these companies. As Beazley Group owns 100% of the share capital, it could receive profits from these entities in the future from the business underwritten by the members on syndicate 623.

Beazley has also established a licensed insurance company in the US (Beazley Insurance Company Inc (BICI)) to write business not normally available to the members of the syndicates. The members may have the opportunity to participate in the business underwritten in BICI by way of reinsurance of part of the portfolio into the syndicates. The syndicates will be charged commissions at an appropriate and competitive market rates for the type of business underwritten by BICI. As Beazley Group owns 100% of the share capital of the insurance company, it could receive profits from this company in the future from the business underwritten by the members on syndicate 623.

#### 19. Post balance sheet events

The following amounts are proposed to be transferred to members' personal reserve funds on 18 April 2007. The figures stated are before members agents' fees incurred.

	2006 £m	2005 £m
2003 year of account	–	41.6
2004 year of account	29.0	9.2
2005 year of account	–	–
	<b>29.0</b>	<b>50.8</b>



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Syndicate 623 at Lloyd's 2004 year of account

## Managing agent's report

### Basis of preparation

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 (the "Lloyd's Regulations") and in accordance with the Syndicate Accounting Bylaw (No.9 of 2005), applicable accounting standards in the UK and comply with the the ABI SORP.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2004 year of account which has been closed by reinsurance to close at 31 December 2006; consequently the balance sheet represents the assets and liabilities of the 2004 year of account and the profit and loss account reflect the transactions for that year of account during the 36 months period until closure.

### Annual general meeting

In accordance with the bylaws, an application has been made to the Council of Lloyd's to waive the requirement for having a syndicate annual general meeting as it is intended to re-appoint KPMG as auditors. As there is no other business to consider at the meeting, no annual general meeting of the syndicate will be held.

### Statement of managing agent's responsibilities

The Lloyd's regulations require the managing agent to prepare syndicate underwriting year accounts for each syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December.

The managing agent must prepare the syndicate underwriting year accounts which give a true and fair view of the result of the closed year of account.

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- Select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account ensure a treatment which is equitable between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- Take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Lloyd's regulations. It also has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the syndicate and to prevent and detect fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board.

**D A Horton**  
Director

9 March 2007

# Report of the independent auditors to the members of Syndicate 623

## 2004 closed year of account

We have audited the syndicate underwriting year accounts of syndicate 623 for the three years ended 31 December 2006, which comprise the profit and loss account, the balance sheet and the related notes 1 to 13. These have been prepared under the accounting policies set out therein.

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate accounts) Regulations 2004 and the Lloyd's Syndicate Accounting Bylaw (No 8 of 2005). Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for preparing the syndicate underwriting year accounts in accordance with applicable law and UK accounting standards (UK generally accepted accounting practice) are set out in the statement of managing agent's responsibilities on page 34.

Our responsibility is to audit the syndicate underwriting year accounts in accordance with the relevant legal and regulatory requirements and international standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate underwriting year accounts give a true and fair view of the result of the closed year of account. We also report to you if, in our opinion, the managing agent's report is not consistent with the syndicate underwriting year accounts, if the managing agent has not kept proper accounting records in respect of the syndicate, or if we have not received all the information and explanations we require for our audit.

We read the managing agent's report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate underwriting year accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the syndicate underwriting year accounts, 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 syndicate underwriting year accounts are 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 syndicate underwriting year accounts.

### Opinion

In our opinion, the syndicate underwriting year accounts give a true and fair view in accordance with UK generally accepted accounting practice of the results for the 2004 closed year of account.

### KPMG Audit Plc

Chartered Accountants and Registered Auditor  
8 Salisbury Square  
London EC4Y 8BB

9 March 2007

Profit and loss account: technical account  
For the 36 months ended 31 December 2006

	Note	2004 year of account £m
<b>Syndicate allocated capacity</b>		<b>344.6</b>
Gross premiums written		339.3
Outward reinsurance premiums		(68.9)
Net premiums written and earned		<b>270.4</b>
Allocated investment return transferred from the non-technical account		14.0
Reinsurance to close premiums received, net of reinsurance	2	142.2
		<b>156.2</b>
Gross claims paid		(144.1)
Reinsurers' share		40.2
Claims incurred, net of reinsurance		<b>(103.9)</b>
Reinsurance to close premiums payable, net of reinsurance	3	(203.1)
		<b>(307.0)</b>
Balance on technical account before syndicate operating expenses	7	<b>119.6</b>
Net operating expenses	4	(84.3)
<b>Balance on the technical account</b>	<b>6</b>	<b>35.3</b>

Profit and loss account: non-technical account  
For the 36 months ended 31 December 2006

	Note	2004 year of account £m
<b>Balance on the technical account</b>		<b>35.3</b>
Investment income	5	14.1
Investment management expenses and charges		(0.1)
Allocated investment return transferred to the technical account		(14.0)
Other charges		(6.3)
<b>Profit for the 2004 closed year of account</b>		<b>29.0</b>
Return on capacity, before members' agents' fees		8.4%

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

## Balance sheet

Closed at 31 December 2006

	Note	2004 year of account £m
<b>Assets</b>		
Investments	8	163.3
Debtors	9	36.9
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	3	108.9
Cash at bank and in hand		38.7
Prepayments and accrued income		0.1
<b>Total assets</b>		<b>347.9</b>
<b>Liabilities</b>		
Amounts due to members	10	22.5
Reinsurance to close premium payable to close the account – gross amount	3	312.0
Creditors	11	12.2
Accruals and deferred income		1.2
<b>Total liabilities</b>		<b>347.9</b>

The underwriting year accounts on pages 36 to 42 were approved by the board of directors on 9 March 2007 and were signed on its behalf by:

**A F Beazley** (Active underwriter)

**D A Horton** (For and on behalf of Beazley Furlonge Limited)

### 1. Accounting policies

#### Underwriting transactions

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three-year period outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

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

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

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

The reinsurance to close premium is determined by reference to outstanding liabilities, including claims incurred but not yet reported, relating to the closed year and to all previous closed years reinsured therein. Although the estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium includes a provision for unearned premiums and unexpired risks at the balance sheet date, net of deferred acquisition costs.

#### Comparatives

Comparatives are not provided in these accounts as each syndicate year of account is a separate annual venture.

#### Investment return

The gross investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment returns arising in each calendar year are allocated to years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account that funded these deposits.

The investment return is wholly allocated to the technical account.

Investments are valued at market value at the balance sheet date. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date.

#### Syndicate operating expenses

Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate. Where expenses do not relate to any specific year of account, they are apportioned between years of account on a basis that reflects the benefit obtained by each year of account from each type of expense.

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

- Salaries and related costs – according to the staff time spent on dealing with syndicate matters;
- Accommodation costs – proportioned based on the overall staff costs allocation above; and
- Other costs – as appropriate in each case.

#### Taxation

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

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

### 1. Accounting policies (continued)

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

#### Basis of currency translation

The syndicate operates in four separate currency funds: sterling, Euro, 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. The Euro, US dollar and Canadian dollar exchange rates ruling at 31 December 2006 are Euro 1.48, US\$1.96 and CAD\$2.28.

### 2. Reinsurance to close premiums received

	2004 year of account £m
Gross reinsurance to close premium received	244.7
Reinsurance recoveries anticipated	(102.5)
<b>Reinsurance to close premium received, from 2003 and earlier, net of reinsurance</b>	<b>142.2</b>

### 3. Reinsurance to close premiums payable

	2004 year of account £m
Gross reinsurance to close premium payable	(312.0)
Reinsurance recoveries anticipated	108.9
<b>Reinsurance to close premium payable to 2005, net of reinsurance</b>	<b>203.1</b>

### 4. Net operating expenses

	2004 year of account £m
Acquisition costs	65.8
Loss on exchange	1.0
Administrative expenses	17.5
	<b>84.3</b>
<b>Administrative expenses include:</b>	
Fees payable to the syndicate auditor for the audit of the syndicate annual accounts	
Audit services	0.1
Other services	–

### 5. Investment income

	2004 year of account £m
Income from investments	18.2
Loss on the realisation of investments	(4.1)
	<b>14.1</b>

## 6. Segmental analysis

An analysis of the underwriting result before investment return is set out below:

2004 year of account	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Unallocated £m	Total £m
Gross premiums written	166.2	82.2	36.6	54.3	–	339.3
Outward reinsurance premiums	(32.6)	(15.5)	(10.1)	(10.7)	–	(68.9)
Net earned premiums	133.6	66.7	26.5	43.6	–	270.4
Net claims	(81.3)	(40.3)	(22.4)	(20.8)	–	(164.8)
Operating expenses before foreign exchange	(35.6)	(25.0)	(7.8)	(15.0)	–	(83.3)
Technical account result before investment income	16.7	1.4	(3.7)	7.8	–	22.2
Loss on exchange					(1.0)	(1.0)
Investment income					14.1	14.1
<b>Balance on technical account</b>	<b>16.7</b>	<b>1.4</b>	<b>(3.7)</b>	<b>7.8</b>	<b>13.1</b>	<b>35.3</b>
Claims ratio	61%	60%	85%	48%	–	61%
Expense ratio	27%	37%	29%	34%	–	31%
Combined ratio	88%	97%	114%	82%	–	92%

The above teams are classified in Schedule 9a of the Companies Act 1985 as:

- Specialty lines = third party liability;
- Property = fire and other damage to property;
- Reinsurance = reinsurance; and
- Marine = marine, aviation and transport.

### Geographical origin of gross direct premiums written:

An analysis of gross direct premiums written by reference to the situs of the risk is provided below:

	2004 year of account £m
Risks located in UK	47.4
Risks located in other member states of the EU	30.5
Risks located in other countries	261.4
<b>Gross premiums written</b>	<b>339.3</b>

## 7. Analysis of result before net operating expenses and investment return

	2004 year of account £m
Amount attributable to business allocated to the 2004 year of account	106.8
Surplus on the reinsurance to close for the 2003 year of account	12.8
	<b>119.6</b>

**8. Investments**

	2004 year of account £m
At market value:	
Debt securities	154.6
Other investments	8.7
	163.3

**9. Debtors**

	2004 year of account £m
Arising out of direct insurance operations	2.3
Debtors arising out of reinsurance operations	0.3
Amount due from managing agent	2.6
Members' agents' fees	1.8
Other debtors	29.9
	36.9

**10. Amounts due to members**

	2004 year of account £m
Profit for the 2004 closed year of account	29.0
Transfers to members' personal reserve funds in 2005 and 2006	(6.5)
<b>Amounts due to members at 31 December 2006</b>	<b>22.5</b>

**11. Creditors**

	2004 year of account £m
Arising out of direct insurance operations	4.1
Arising out of reinsurance operations	0.7
Profit commission payable	6.3
Other creditors	1.1
	12.2

**12. Cash at bank and in hand**

	2004 year of account £m
Cash at bank and in hand	9.7
Overseas deposits	29.0
	38.7

**13. Related party transactions**

Please refer to page 30 for further details of related party transactions for the 2004 year of account.

## Seven-year summary of closed year results at 31 December 2006

	2004	2003	2002	2001	2000	1999	1998
Syndicate allocated capacity – £000s	344,600	330,000	325,000	215,317	125,186	94,699	94,690
Capacity utilised	94%	97%	86%	109%	108%	124%	88%
Number of underwriting members	936	1,675	1,612	1,351	960	827	830
Aggregate net premiums – £000s	207,541	222,451	181,641	143,785	79,102	70,813	56,589
Net capacity utilised	60%	67%	56%	67%	63%	75%	60%
Underwriting profit as a percentage of gross premiums	18.5%	27.8%	23.2%	3.1%	3.0%	2.1%	2.5%
<b>Results for an illustrative £10,000 share</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Gross premiums	7,920	8,800	8,609	10,943	10,810	12,394	8,829
Net premiums	6,023	6,741	5,589	6,678	6,319	7,478	5,976
Reinsurance to close from an earlier account	4,508	2,870	4,085	3,897	6,146	7,619	6,606
Net claims	(3,313)	(2,176)	(2,299)	(3,829)	(5,073)	(6,192)	(4,829)
Reinsurance to close the year of account	(5,893)	(5,116)	(5,375)	(6,405)	(7,066)	(8,647)	(7,536)
Underwriting profit	1,325	2,319	2,000	341	326	258	217
Profit/(loss) on exchange	(29)	29	(8)	64	(22)	(31)	3
Syndicate operating expenses	(469)	(526)	(405)	(512)	(524)	(556)	(582)
Balance on technical account	827	1,822	1,587	(107)	(220)	(329)	(362)
Gross investment return	431	337	234	341	488	776	614
Profit before personal expenses	1,258	2,159	1,821	234	268	447	252
<b>Illustrative personal expenses</b>							
Illustrative personal expenses	(234)	(184)	(184)	(159)	(185)	(195)	(224)
Managing agent's profit commission	(182)	(345)	(285)	(17)	(21)	(52)	(16)
Profit after illustrative profit commission and personal expenses	842	1,630	1,352	58	62	200	12

- 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. Internal claims settlement expenses have been included in net claims.
  4. The 2002 account figures above are not on a combined syndicate 623 and 2623 basis. They reflect the pure syndicate 623 position.
  5. The syndicate allocated capacity excludes the qualifying quota share arrangements in 2002.
  6. The above figures are stated before members' agents' fees.

Beazley Furlong Limited has been the managing agent of syndicate 623 throughout the period covered by this report and the registered office is Plantation Place South, 60 Great Tower Street, London EC3R 5AD.

#### Directors

Jonathan G W Agnew – Chairman  
Andrew F Beazley – Active Underwriter  
George P Blunden  
Nicholas H Furlong  
Jonathan G Gray  
D Andrew Horton  
Neil P Maidment  
Arthur R Manners  
Andy D Pomfret  
Johnny G Rowell  
Joseph D Sargent (resigned 31 October 2006)  
Clive A Washbourn  
J Dudley Fishburn

#### Company secretary

Sian A Coope

#### Managing agent's registered office

Plantation Place South  
60 Great Tower Street  
London EC3R 5AD  
United Kingdom

Registered number 1893407



Beazley Furlong Limited  
Syndicate 2623/623 at Lloyd's

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