

Beazley Group plc

Syndicate 623  
at Lloyd's  
Annual report  
2008

embracing **risk** reducing **uncertainty**

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we aim to **do both.**

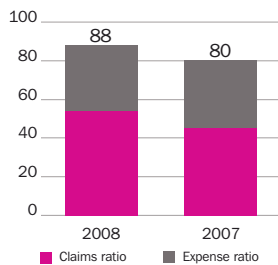
## Contents

1 Highlights	16 Independent auditors' report to the members of syndicate 623	<b>2006 Year of account for syndicate 623</b>	34 Profit and loss account
2 Underwriter's report	17 Profit and loss account	32 Managing agent's report	35 Balance sheet
<b>Annual report and financial statements for syndicate 623</b>	18 Statement of total recognised gains and losses	32 Statement of managing agent's responsibilities	36 Notes to the underwriting year accounts
12 Managing agent's report	19 Balance sheet	33 Independent auditors' report to the members of syndicate 623 on its 2006 year of account	
15 Statement of managing agent's responsibilities	20 Cash flow statement		
	21 Notes to the financial statements		

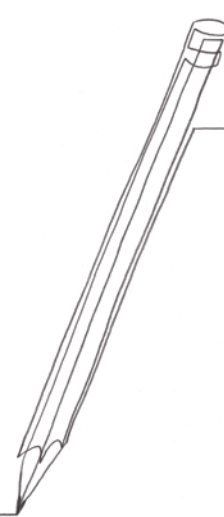
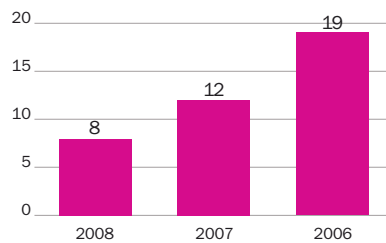
## Highlights

	2008	2007
Syndicate capacity (£m)	155.0	163.0
Gross premiums written (£m)	197.3	179.2
Net premiums written (£m)	169.4	151.2
Earned premiums, net of reinsurance (£m)	165.4	156.3
<b>Profit for the financial year (£m)</b>	<b>11.2</b>	<b>36.5</b>
Claims ratio	54%	45%
Expenses ratio	34%	35%
Combined ratio	88%	80%
Rate reduction	(6%)	(4%)
Cash and investments (£m)	365.1	332.6
Average investment return	(0.3%)	3.5%

Combined ratio (%)



Return on capacity (%)



# Underwriter's report

## Overview

The syndicate has achieved a profit for the year of £11.2m. Our unbroken record of profitable results throughout uncertain and difficult times proves that our commitment to excellent underwriting, rigorous risk management practices and a strong reinsurance programme are central to what we do.

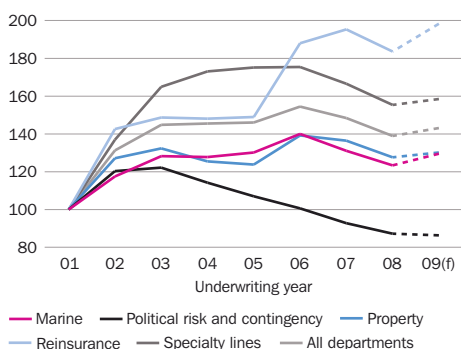
For 2008 total managed premium capacity for Beazley was £847m, which includes £33m for 3623 (2007: £860m). Syndicate 623 contributed £155m and Beazley Group plc through syndicate 2623, the remaining £659m.

## Year of account results

We are delighted to declare a result of 19% return on capacity for the 2006 year of account. The 2007 year of account is maturing well currently forecasting a return on capacity of 12%. 2008, which is still in the early stages of development, is currently forecasting a return on capacity of 8%, which in light of the hurricane season and turbulence in investment markets during the year is a testament to the diversity of our account and strength of our underwriting.

## Rating environment

### Cumulative renewal rate changes since 2001 (%)



2008 was a year of change in our markets, with initially weakening rating environments being replaced by improving pricing in the last quarter. Overall, rates charged for business we renewed fell by 6% during 2008 (2007: a reduction of 4%). These reductions were in line with previous announcements and met our predictions at the start of 2008.

In the last quarter of the year we saw premium rates start to improve in most lines. We expect this trend to continue and we are expecting to see rate increases in our business lines in 2009. The reasons for this change in the market are as follows:

- The financial events of 2008 have refocused the attention of insurance buyers on the financial strength of their carriers as well as on the need to diversify their sources of insurance and reinsurance protection. As the rating and reputation of Lloyd's remains strong, we stand to benefit from these trends during 2009.
- The Gulf of Mexico hurricanes in 2008 served as a reminder to our clients of the importance of insurance and reinsurance, with the loss estimates recorded as a result of hurricane Ike making it the fourth largest insured catastrophe in history. Latest estimates put this loss alone at \$20bn. Our energy, US commercial property and reinsurance accounts are all experiencing rate increases as a result, with renewals delivering increases of around 10%, 8% and 8% respectively.

## Combined ratio

The syndicate's combined ratio has increased from 80% in 2007 to 88% in 2008.

## Claims

Our claims ratio increased to 54% in 2008 (2007: 45%). This increase is mainly driven by the impact of the 2008 US hurricane, namely hurricanes Ike and Gustav. There were however, a number of offsetting releases made against prior year claims reserves which are analysed on page 3.

## Hurricanes

The US hurricane season started in May 2008 and there were 13 named storms, six of which reached hurricane strength. As in 2005, these storms caused catastrophic damage to the gulf region, this time extending from Florida into parts of Texas.

The net profit impact of hurricanes Ike and Gustav to syndicate 623 was £5.9m. This figure is calculated by taking the cost of the storms themselves, net of any reinsurance recoveries we can make, less any hurricane margins we would ordinarily hold for these types of events. We have applied the same approach in calculating this cost as we did in 2005, leaving some reserving margin to cover other events which may still occur.

The table below illustrates how the cost of the two hurricanes has been estimated to impact syndicate 623.

	Hurricane Ike £m	Hurricane Gustav £m	Total £m
Gross loss	14.9	1.8	16.7
Reinstatement premiums payable	0.3	–	0.3
Reinsurance recovery	(5.2)	–	(5.2)
<b>Net loss</b>	<b>10.0</b>	<b>1.8</b>	<b>11.8</b>
Release of catastrophe margin			(5.9)
<b>Net loss after release of catastrophe margin</b>			<b>5.9</b>

We insure against hurricane damage in a number of our divisions, notably reinsurance, commercial property and offshore energy. The costs to each of the teams varied, with the property group incurring the largest share at £3.7m, followed by the offshore energy account at £1.3m, and reinsurance at £0.9m. The marine and property teams both benefited from reinsurance protection. The release of the catastrophe margin referred to above mainly relates to reserves the syndicate would normally hold against the 2008 underwriting year.

## Prior year reserve releases

Aside from the hurricanes, we have continued to observe better than expected claims experience across our business lines. This has allowed us to release the following claims reserves during 2008 (with a comparison to releases in 2007).

	2008 £m	2007 £m
Marine	3.7	3.5
Political risks and contingency	3.0	3.1
Property	1.0	3.9
Reinsurance	4.2	3.5
Specialty lines	7.9	10.8
<b>Total</b>	<b>19.8</b>	<b>24.8</b>

Beazley has a conservative reserving philosophy. Initial reserves are set to include prudent margins which are released consistently over time as the uncertainty reduces. To facilitate this, reserves are reviewed on a quarterly basis. Whilst underwriters and claim managers estimate reserves on a bottom up claim-by-claim basis, the actuarial team estimate reserves on a top down statistical basis. By comparing the results from these different approaches, we are able to investigate areas of concern at an early stage or areas where the claims performance suggests reserve releases are possible.

In addition, at the end of 2004 we introduced a framework to monitor that we are maintaining this philosophy. A “reserve strength indicator” is estimated for each class and underwriting year to quantify the reserve margin at a particular stage of development. Establishing a risk appetite for the reserve strength indicator has produced a transparent and consistent reserve margin across underwriting years for each of our business lines and has led to objective reserve releases over time. As it helps explain how the pricing, reserving and capitalisation levels are interacting and changing over the market cycle, it is also an important cycle management tool.

## Specialty lines claims reserve releases

During 2008, our specialty lines claims have continued to develop favourably, enabling us to make further releases during the year of £7.9m (2007: £10.8m).

The loss development tables set out in note 4 of our financial statements demonstrate how we have been able to release reserves over time against each of these years.

### Sub-prime exposures and recessionary planning

We established an internal working party in 2007 tasked with monitoring the sub-prime mortgage issue in the US. In recent years, Beazley has had a limited appetite for professional liability risks within the financial institution sector which are viewed as the highest impacted areas. Whilst the number of sub-prime related lawsuits (as reported by Advisen) has recently been updated to exceed 450, we provide directors and officers (D&O) coverage for only seven of the affected entities and other types of professional or liability related coverage for a further seven. As such, we currently expect that our exposure will remain within our reserves.

During 2008, all relevant business areas have specifically analysed the potential impact of a recessionary environment on their account in order to make the most of opportunities and mitigate the risks. Execution of these plans is progressing well.

Our philosophy of having senior and experienced underwriters with a deep understanding of their industries is particularly important in a turbulent marketplace as risk selection is the first line of defence. This has already been demonstrated in 2008 against a backdrop of an increased number of large single risk losses on the property side. Technical pricing techniques are also used to supplement the underwriting decisions.

A consequence of a recessionary environment is the potential for increased claims frequency. As such, we have recently performed a detailed review within our specialty lines team and report that, in the majority of business areas, claim frequency to date is stable across years. In the few cases where we have seen the start of a trend, we have implemented remedial action. It is important to distinguish between trends in claims numbers and trends in claims frequency. To produce robust analysis, it is important to compare the claim numbers to the underlying exposure measures.

It is very difficult to predict changes in claims frequency and so we will continue to monitor not only the claims frequency but also changes to the underlying drivers of claims. Feeding the results of these analyses back into the underwriting process is a further example of a cycle management tool being used.

### Expenses

Our expenses ratio fell in 2008 from 35% to 34% due to higher net earned premiums, which rose from £156.3m to £165.4m, and reduced variable incentive costs in line with the reduced profit.

### Investment performance

	Average balance £m	Return %	Return £m
Syndicate Funds (Investment Grade Bonds & Cash)			
GBP	48.4	3.0	1.5
USD	246.6	(1.2)	(3.1)
Other	53.8	0.9	0.5
<b>Total</b>	<b>348.8</b>	<b>(0.3)</b>	<b>(1.1)</b>

The turmoil in global financial markets in the second half of 2008 has resulted in the syndicate posting a total investment loss for the year of £1.1m or a return of -0.3% despite a relatively conservative investment portfolio comprising investment grade bonds and cash (2007 was a profit of £12.2m with a return of 3.5%).

### Employee numbers

In 2008, our permanent UK employee numbers grew from 328 to 331 as we continue to grow our business organically and through acquisition of other business portfolios. Talent management remains one of our core principles.

The number of employees employed by Beazley Management Limited but working for the syndicates 623 and 2623 as at the year end was as follows:

Employee numbers	2008	2007
Marine	26	25
Political risks and contingency	15	11
Property	48	45
Reinsurance	11	10
Specialty lines	88	104
Finance (including actuarial, compliance and internal audit)	47	41
IT	52	45
Ceded reinsurance	11	13
Talent management	11	12
General management and other support	22	22
<b>Total</b>	<b>331</b>	<b>328</b>

### Claims service

We have invested significantly in high quality claims service across our lines of business in recent years. When insurance markets are highly competitive, as they were for most of 2008, a reputation for excellent claims service is a means to strengthen client loyalty and retention.

We are unusual among Lloyd's based insurers in having claims staff in the US as well as in the UK, as we believe there is value in locating claims expertise closer to our clients.

### Reinsurance

Reinsurance is purchased for a number of reasons:

- To minimise the impact of catastrophes such as hurricanes;
- To provide large or lead line capabilities to underwriters; and
- To manage capital to lower levels.

In 2008, we have kept our reinsurance costs constant at £27.9m (2007: £28.0m). As a percentage of the gross premiums written, it fell from 15.6% to 14.1% during the year.

Reinsurance pricing is expected to increase during 2009 reflecting a demand and supply mismatch. A combination of weakened balance sheets arising from investment losses, a restricted ability to raise new capital post-event and reduced capital market activity in the reinsurance space have contributed to this mismatch.

Supply is expected to be further restricted by counterparty credit issues as balance sheets are further impaired by recent economic and catastrophe events. The syndicate is rigorous in its selection and utilisation of potential reinsurance counterparties and this will continue to be a core focus in 2009.

### Individual capital assessment

The syndicate is required to produce an individual capital assessment (ICA) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews this assessment to ensure that ICAs are consistent across the market.

In order to determine the 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 to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- 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.

### Outlook

We expect to see premium rates continuing to increase in most of our business lines in 2009, a trend that is likely to be accentuated by a continuing flight to quality by clients from insurers perceived as offering less than impeccable security.

### N P Maidment

Active underwriter

## Marine

Our marine team write approximately 10% of the world's ocean going tonnage and is the leader of voyage and tow business in the Lloyd's market. We also insure 35% of the world's top 200 oil and gas companies.

	2008 £m	2007 £m
Gross premiums written	35.0	34.1
Net premiums written	30.1	30.1
Earned premiums, net of reinsurance	30.1	32.4
Claims incurred, net of reinsurance	14.2	12.5
Net operating expenses	11.0	10.5
<b>Technical result</b>	<b>4.9</b>	<b>9.4</b>
Claims ratio	47%	39%
Expenses ratio	37%	32%
Combined ratio	84%	71%
Rate decrease	(6%)	(7%)

## Profile

Led by Clive Washbourn, the marine team are established leaders in all the main classes they write, which include marine hull, cargo, war and energy physical damage. We are able to attract the highest quality business through our leadership position and in-depth knowledge of the segment. As the portfolio has grown, we have continued to strengthen our underwriting and claims team.

## Market overview

2008 has been a tough year for our marine insurers, with rates on renewal premiums falling consistently in the first nine months. Over the course of the year, our premium rates reduced by 6%, with the offshore energy market being the most severely affected. The hurricanes in the third quarter reversed this trend. Hurricane Ike, which caused catastrophic damage to large areas in the gulf region in September, is being quoted as being the second largest energy loss in history. Our own estimate is that for offshore energy platforms alone, Ike caused in excess of \$3bn of industry insured losses. Since these events, we have seen significant price improvements in our energy account – with the Gulf of Mexico exposed renewal business experiencing rate increases of around 50%.

## Current performance

Despite the tough rating conditions the marine team had a good year. Gross premiums written increased to £35.0m (2007: £34.1m), largely a result of the higher US dollar exchange rate in 2008.

Our hull account has continued to grow, with its rates holding up well all year (down only 4%). Whilst this market is becoming increasingly competitive we have still seen a 12% growth in premiums during 2008. In a number of instances we continued to increase our written line to take advantage of the tail end of an incredibly buoyant shipping market.

As anticipated the energy physical damage market saw increased pressure on pricing in the first nine months of 2008. During this period, prices charged for our renewal accounts fell by up to 14%. Since the hurricane season, our market has turned more favourably, with rates increasing. Limitations in supply will serve to drive prices up even further.

Our war account, the insurance of ships and aeroplanes against terrorist and war risks, continues to perform well. We write the largest hull, war and terrorism account within Lloyd's and due to our historical experience of low losses we continue to generate a good profit. The pirate activity in the Gulf of Aden has given us considerable premium growth in the last quarter and appears at this stage to be very profitable.

The cargo account has once again had a tough year – with both premium rates and volumes written in decline. From around the middle of 2008, we have focused our attention on positioning the account to be as sheltered from the world's economic crisis as practical.

The UK regional cargo account, which insures freight and land cargo, as well as regional water transport vessels, continues to make steady progress. The market in the regions for these types of insurance is particularly competitive and we have been selective in growing the business through writing only well managed risks at rates we believe can meet our return targets.

## Outlook

We anticipate 2009 to be a year of rating disparity between our energy portfolio and the rest of our classes.

We expect a growth of income and profitability from our energy account as rates, terms and conditions improve as a reaction to hurricane Ike losses. The hull, war and cargo accounts are going to have a difficult trading year as both values and volumes collapse on the back of the world's economic crisis. Income is expected to be down considerably in these classes. The marine liability portfolio will see small rises on a substantially reduced income as the team have declined to renew three large contracts that are failing to meet our expected profit margins.

Our team is expected to continue to trade profitably in all classes and will continue to seek profitable opportunities where and when they arise.

### Political risks and contingency

Our innovative product range enables our insureds to achieve their business ambitions and mitigate complications outside their direct control. We set ourselves apart because we make rapid decisions based upon a deep understanding of our clients' business models and the political and economic environments in which they operate.

	2008 £m	2007 £m
Gross premiums written	16.5	15.0
Net premiums written	13.2	13.8
Earned premiums, net of reinsurance	13.3	11.5
Claims incurred, net of reinsurance	3.3	1.8
Net operating expenses	4.8	3.3
<b>Technical result</b>	<b>5.2</b>	<b>6.4</b>
Claims ratio	25%	16%
Expenses ratio	36%	29%
Combined ratio	61%	45%
Rate decrease	(6%)	(8%)

### Profile

Led by Adrian Lewers, the political risks and contingency group (PCG) was formerly included within the specialty lines division at Beazley. In early 2008 PCG became a fifth underwriting division of the syndicate in recognition of the volume of business generated and also the distinctive nature of the business written. During the year PCG delivered 8% of the syndicate's gross premiums written, providing lead capacity in three specialist segments: political risks, contingency and terrorism.

As well as the core team in London, PCG has two underwriters in Singapore. The team continue to identify opportunities globally and ally their expertise across classes of business with other Beazley underwriters.

### Market overview

Competition for terrorism business has been intense in recent years with rates falling consistently since the attacks on the World Trade Centre in 2001. This has been offset partially by lower than expected rate reductions across the political risks and contingency classes where demand continues to be strong. Despite the increased competitive pressures across all classes we have managed to maintain our portfolio of profitable business and believe we are in a strong position to continue to grow our offering of specialist cover and exceptional claims service to clients at a time when the changing political and economic environment demands it.

### Current performance

Gross premiums written increased by 10% for PCG to £16.5m for 2008. Rate reductions for PCG as a whole during 2008 were 6% with rates down markedly for terrorism business by 12% and to a lesser extent for contingency of 2% but an increase for political risks business of 6%.

The recent terrorist attacks in Mumbai are only expected to result in a couple of minor claims for the syndicate. It has been possible to make prior year reserve releases from claims in respect of our business amounting to £0.8m during the year, reflecting the benign claims environment in this class up until 2008.

### Outlook

The global economic downturn is expected to present attractive underwriting opportunities for some classes of business. Within the political risks business we anticipate that there will be an increased demand for insurance cover from banks, commodity traders and other financial institutions as they look to achieve capital efficiency and to some extent diversify from capital markets in order to more effectively manage their risk. The pricing environment is very favourable at present and is expected to continue through 2009.

We expect that the contingency business will continue to see downward pressure on rates as the impact of recession affects demand, particularly in areas such as event cancellation.

Within the terrorism account we see underwriting innovation as a key differentiator in this competitive area, and we see particular scope to develop the business into emerging markets as they increasingly form a more important part of the world economy.

## Property

The financial security provided by insurance is vital to 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 enterprises.

	2008 £m	2007 £m
Gross premiums written	39.8	43.0
Net premiums written	33.7	36.5
Earned premiums, net of reinsurance	36.7	41.7
Claims incurred, net of reinsurance	24.4	17.0
Net operating expenses	14.0	16.7
<b>Technical result</b>	<b>(1.7)</b>	<b>8.0</b>
Claims ratio	66%	41%
Expenses ratio	38%	40%
Combined ratio	104%	81%
Rate decrease	(6%)	(2%)

## Profile

Led by Jonathan Gray, our specialist underwriting teams lead the programmes of US Fortune 1000 clients and insure some of the world's largest construction projects. In addition we insure homeowners, jewellers' risks and small commercial property clients and account for 20% of the syndicate's gross premiums written.

With expansion in the US, we are also able to write commercial property risks on both an admitted and surplus lines basis locally, as well as high value homeowners' risks on a surplus lines basis. The diverse nature of our clients, class types and distribution platforms enable us to provide the syndicate with a well-balanced portfolio and manage the cycle.

## Market overview

As with other lines of business, the property group experienced a tough rating environment in the first nine months of 2008. Rates fell as a result of low claims incidence in 2006 and 2007, with both years having benign hurricane seasons with large commercial property risks seeing the greatest reduction. Overall, during 2008 property group saw rates fall by 6% on their portfolio.

2008 saw a marked increase in loss activity, with a number of large single risk losses in the first half of the year followed by hurricanes Ike and Gustav, in the second half of 2008: this increased loss activity, together with the turmoil in financial markets and the difficulties faced by some insurers, is expected to lead to increased opportunities, with rates hardening and an improvement in terms and conditions. We saw some evidence of this in the late 2008 and January 2009, but do not expect to witness the full impact of these market-changing events until the second quarter of 2009 and beyond.

## Current performance

Gross premiums written fell in 2008 by 7% to £39.8m, as a result of the pressure on rates highlighted above our declining risks which no longer met our rating requirements and reduced new business volumes. We restructured our homeowners' account, with loss-making accounts not being renewed and our UK revised postcode rating tables being implemented with rates increasing on average between 10% and 15%.

Our engineering & construction account had a tough year, with a number of construction projects either being postponed or cancelled because of global recessionary conditions. Our Singapore office, which opened in November 2006, continues to be well received and is gaining traction in the local market.

## Outlook

The property group is well positioned to take advantage of the likely increase in rates and improved market conditions in 2009. Catastrophe losses, lower investment returns, and higher costs of capital for insurance providers, when taken together can be expected to create a rating environment that will be more favourable for insurers. 2009 is therefore expected to see improved terms and conditions in our US markets, particularly those risks which are catastrophe exposed.

## 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.

	2008 £m	2007 £m
Gross premiums written	16.5	13.8
Net premiums written	13.6	12.1
Earned premiums, net of reinsurance	13.2	11.6
Claims incurred, net of reinsurance	5.1	3.0
Net operating expenses	3.5	3.4
<b>Technical result</b>	<b>4.6</b>	<b>5.2</b>
Claims ratio	39%	26%
Expenses ratio	27%	29%
Combined ratio	66%	55%
Rate (decrease)/increase	(6%)	5%

## Profile

Led by Neil Maidment, the reinsurance division provides protection 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. The reinsurance division represents 8% of the syndicate's 2008 gross premiums written.

## Market overview

After the significant price increases in the reinsurance market in 2006 and 2007, pricing reductions were experienced in the first nine months of 2008 following two years of a benign claims environment.

Hurricanes Ike and Gustav, in the third quarter of 2008, served to reinforce our longstanding relationships with clients and confirm their requirements for catastrophe reinsurance. We are already seeing an improvement in rating conditions in our markets, with rates charged for renewal business increasing by 8% in January 2009.

2008 also saw a tightening of capital availability as part of the wider turmoil in financial markets. We expect this to impose a constraint on the risk appetite of reinsurers, reducing supply in the market at a time of increased demand. This presents an opportunity for strongly capitalised, proven carriers such as Beazley.

## Current performance

Despite the challenges presented to us in 2008, the reinsurance team has delivered a significant contribution to the syndicate profit for the year. Gross premiums written increased by 20% to £16.5m for the year. Overall, rate reductions across the division of 6% were in line with expectations. These were driven by underlying reductions in rates for US-domiciled business of 8% and reductions of 4% in economies outside of the US.

The 2008 hurricanes are expected to have caused combined losses of over \$20bn across the insurance industry as a whole. The cost of these events to the reinsurance account, net of the planned catastrophe margin which has been released, was £0.9m. In pro-actively managing the insurance cycle, dealing with well understood clients and risks, and learning from the experience of the 2005 hurricanes, we have limited our hurricane exposure to manageable levels.

Other significant reinsurance claims incurred during 2008 include a series of large industrial commercial risk losses totalling in excess of \$6bn across the market. It is not anticipated that these will have a material impact on the results of the division. Prior years continue to develop well for the catastrophe account enabling releases from claims reserves of £4.2m during the year.

## Outlook

Recognising the impact of the financial crisis on the insurance and reinsurance markets, we are positive about the prospects for the future as we move into the next stage of the insurance cycle.

We have continued to diversify our portfolio, establishing an underwriting presence in Munich. This will provide access to the smaller and mid-sized commercial market in Germany and continental Europe that would not ordinarily place business at Lloyd's. The valued support that we provide to our established long-term client base resulting in high business retention rates stands us in good stead for continued future profitability.

### Specialty lines

We see opportunities arising within our Lloyd's business as the strength of the Lloyd's brand and capital structure, coupled with Beazley's proven track record, provide comfort for insureds looking to manage their exposures in the economic downturn.

	2008 £m	2007 £m
Gross premiums written	89.5	73.3
Net premiums written	78.8	58.7
Earned premiums, net of reinsurance	72.1	59.1
Claims incurred, net of reinsurance	43.1	35.7
Net operating expenses	22.5	21.6
<b>Technical result</b>	<b>6.5</b>	<b>1.8</b>
Claims ratio	60%	60%
Expenses ratio	31%	37%
Combined ratio	91%	97%
Rate decrease	(7%)	(5%)

### Profile

Led by Adrian Cox, specialty lines concentrates on errors and omissions, and management liability. It is the largest underwriting division within the syndicate, delivering 45% of gross premiums written. Prior to 2008 specialty lines included the political risks and contingency group (PCG) which has now been established as a separate division of Beazley. The 2007 comparative figures have been restated to reflect this change.

Our philosophy is to deploy small teams of experienced, able, empowered underwriters in specialist classes where such a structure provides competitive advantage. Many of our clients and broker partners value direct access to decision-makers, both on the underwriting and claims side. Over the cycle, teams of senior, professional underwriters will produce better results.

We are market leaders in many of the fields in which we operate. Our flagship products are lawyers, architects and engineers, healthcare and technology professional liability. Through the group and the syndicates, we underwrite 30 of the top 50 architects and engineering firms, a third of the AmLaw 200 roster of top law firms, three of the top ten US News and World Honor Roll hospitals and three of their top six paediatric hospitals and four of the top five global management consulting firms.

### Market overview

2008 was a year of change in our markets. Premium rates are down 7% across all lines during 2008, flattening considerably during the last quarter. However, the increasing dislocation during 2008 presented business opportunities as insureds look to manage their counterparty exposures by diversifying further.

We have continued to invest in the global infrastructure of our business. The US is by far the largest market for professional and management liability insurance in the world and we have continued to significantly grow the business there. The global nature of the division and well co-ordinated interaction between teams serves us well as we draw on the collective expertise and experience of our underwriters and claims professionals.

Our penetration of the small business segments is also increasing. The private enterprise teams in total comprise one of the largest in Lloyd's and the traction gained by the teams in the US has been very exciting. This business generates a stable underwriting profit across the cycle and was a key driver in the decision to establish a local presence.

The management liability group had very little exposure to financial institutions, and the US errors and omissions teams has, for a long time, avoided professions in the real estate markets. We continue to closely monitor the situation but over the last 12 months there has been limited additional claims activity.

### Current performance

Gross premiums written increased by 22% to £89.5m for 2008. This was achieved despite the weaker rating environment as we grew our locally sourced US business at target rates and applied pricing discipline over larger risks underwritten at Lloyd's. Getting business retention right and looking to grow small scale and mid-sized risks is an important element of our cycle management strategy.

The claims teams operating within the specialty lines division are beginning to prove their value. We see exceptional claims service as a key competitive differentiator as we continue to work hard defending our clients and influencing claims. Our claims reserves have again proven to be robust, enabling the syndicate to release £7.9m in 2008 (2007: £10.8m).

We also see innovation as key to gaining competitive advantage and we are continuously enhancing our insurance products to provide broader coverage where clients require it. An example of our innovative approach to risk management is our healthcare product – QUIRP (Quality Indicator Return Premium) programme – which actively seeks to reward our clients for adopting a strong risk management culture by returning premium to them subject to achieving certain measurable quality standards.

### Outlook

We expect markets to remain stable in 2009 but also expect premium prices to increase as the wide reaching impact of the recent financial turmoil ripples through to the insurance market. In particular we see opportunities arising within our Lloyd's underwritten business as the strength of the Lloyd's brand and capital structure coupled with Beazley's proven track record provide comfort for insureds looking to manage their exposures in the economic downturn.

We think this is an opportunity to broaden our product suite whilst remaining vigilant about underwriting discipline.

## Managing agent's report

The managing agent presents its report for the year ended 31 December 2008.

### Basis of preparation

These financial statements have been prepared using the annual basis of accounting as required by Statutory Instrument No 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. Separate underwriting year accounts for the closed accounts are made available to the syndicate members.

### Risk management

Risk management is an essential part of what we do and our risk framework facilitates communication and dialogue across each of our business areas to help achieve the syndicate's overall strategic objectives.

Our business is based on controlled and informed risk taking across a diverse range of specialist classes of insurance. Our risk appetite allocation methodology is clearly understood and articulated to ensure that where appropriate it is fully utilised to give maximum reward. Our framework is centred on the following principles:

- Transparency – to ensure all risks are clearly understood, measured and controlled by setting limits and monitoring against these;
- Accountability – the organisational structure ensures all risks are owned by appropriate individuals and everyone takes responsibility for managing their risks; and
- Culture – to promote a risk aware culture and to ensure that every decision we take is based upon an evaluation of risk versus reward.

### Risk governance and reporting

During 2008, the risk management team combined with the actuarial team to further increase our focus on the management of insurance risk across the syndicate. The primary goal of the combined team remains to help the syndicate achieve a consistent approach to identifying, measuring and managing risk.

We believe the combined function will enable us to more accurately analyse both the quantitative impact and effectiveness of key underwriting and operational controls and help us to focus our attention on those controls that really matter.

These benefits, in addition to the work already performed in developing a market leading Individual Capital Assessment (ICA) framework, puts us in a strong position to implement the proposed Solvency II regulatory regime. We will report progress as we work towards the 2012 deadline. This is further demonstrated by our "Strong" Standard and Poor's rating for risk management, which ranks our practice in the top 15% of companies rated by them.

The team uses an online risk management tool, the BeazleyRiskMatrix, to support its work. This captures all key controls operating within the business and allows risk and control owners to sign off the controls they are responsible for on a regular basis. Risk Management are able to monitor the effectiveness of these controls in real time across all worldwide locations.

Both the Beazley Furlong Limited board of directors (the "Board") and the Audit Committee have the responsibility for defining the syndicate's risk appetite, with key individuals and committees accountable for day-to-day management of risks and controls. Regular reporting and active participation by the risk management team in all board meetings and senior management committees ensures that risks are monitored and managed as they arise.

Areas for focus in 2009 are outlined in more detail below.

### Managing the cycle

Market cycle risk is characterised by the periodic rise and fall in insurance prices and is driven largely by changes in supply and demand rather than the actual cost of cover. The cycle varies between a soft market where insurance is readily available and premium rates fall as a result of increased competition and a hard market, where clients find insurance coverage more difficult to obtain and rates rise and terms and conditions become more restrictive. Our focus on managing market cycle risk lies at the heart of our underwriting philosophy and this is demonstrated by our strong and consistent trading record.

On a day-to-day basis, market cycle risk is managed in the following ways:

- Business Planning – transitioning the portfolio of business to ensure a sufficiently diverse range of good quality products, whose profitability is aligned to the correct position in the cycle. During a hard market we maximise profits by targeting growth on the best opportunities available and in a soft market we focus our portfolio on less volatile business;
- Cascaded peer review – monitoring of individual risks against limits allocated to each underwriter and performing a "second pair of eyes" check to ensure that there is sufficient oversight of the whole portfolio and that it remains in line with the business plan;
- Reserving – having a clear view of the underlying profitability of individual products with transparent links to capital allocation; and
- Rate adequacy and benchmark pricing – quantitative monitoring of risks to ensure that we are charging appropriate premiums for the risks we are taking.

### Catastrophe risk

Catastrophe risk is assessed both in terms of modelled losses and the risk of losing more than expected through poor exposure management. Our portfolio is analysed for classes of business where accumulations of losses can result from a single or a series of large catastrophic event.

Risk appetite limits are set by the Board and calculated on a probabilistic basis using external catastrophe models. We acknowledge the uncertainty present within these models and therefore also monitor deterministic output using Lloyd's Realistic Disaster Scenarios (RDSs) and our aggregate position. Risk appetite is set based upon the impact on earnings and capital, whilst being mindful of potential opportunities that exist following the event.

The controls in place serve to ensure that we remain within these risk appetite levels set by the Board.

### Asset risk

Asset risk is viewed as the risk arising from adverse changes in the value of our income from assets and changes in exchange rates and interest rates. Through setting comprehensive investment guidelines via the Investment Committee and monitoring against these, reviewing the performance of our investment managers and stress testing our investment portfolio we can assess if our overall risk and return targets are being met.

By category, key risks are mitigated as follows:

- Asset – investment manager limits in place combined with clear investment guidelines; and
- Cash – limits in place to minimise concentration risk.

To minimise the risk of an event impacting both our claims liabilities and our investment portfolios, we endeavour to limit investments in areas which correlate with our insurance portfolios.

### Liquidity risk

Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due. Strategically, we seek to maintain sufficient liquid assets or assets that can be liquidated at short notice and without capital loss to meet our expected cash flow requirements.

### Credit risk

Our exposure to credit risk is mitigated by vetting of all of our key counterparties before trading with them. Performance is closely monitored and managed through our Committee structure. We consider our key counterparties to be reinsurers and brokers as outlined below:

- Reinsurers – exposure monitored by the Reinsurance Security Committee and ratings assigned to each reinsurer according to internally agreed criteria; and
- Brokers – robust broker approval process underpinned by Lloyd's registration process.

### Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events.

The syndicate actively manages operational risks and minimises them where appropriate by implementing and communicating guidelines to staff and other third parties.

### Emerging risk identification

We employ specialist teams to support our underwriters to help identify external trends and issues. Using this research improves our underwriting risk selection, allows us to avoid markets in decline and improves our claims management capabilities.

### Internal audit and compliance

Our internal audit and compliance teams reinforce our comprehensive risk management strategies. They work closely with the risk management team and the business to co-ordinate activity, avoid duplication and deliver a targeted risk-based approach.

### 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:

	2006 year of account capacity £	2007 year of account capacity £	2008 year of account capacity £	2009 year of account capacity £
J G W Agnew	78,253	–	–	–
A F Beazley	1,395,953	1,965,116	454,545	283,661
A P Cox*	211,819	406,977	397,727	283,661
N H Furlonge	211,819	232,558	300,000	283,661
J G Gray	111,841	122,791	300,000	283,661
D A Horton	111,841	232,558	300,000	283,661
N P Maidment	111,841	122,791	300,000	283,661
A R Manners	558,950	558,950	525,827	497,196
D G Marock**	211,819	290,698	300,000	283,661
J G Rowell#	1,600,000	2,398,954	3,016,017	–
C A Washbourn	109,843	120,598	300,000	283,661

\*Appointed on 10 October 2008.

\*\*Appointed on 8 December 2008.

#Resigned on 3 October 2008.

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

### Annual general meeting

This year Beazley Furlonge Limited gives notice that an annual general meeting of the members of syndicate 623 will be held at 3.30pm on Thursday, 23 April 2009 at Plantation Place South for the purpose of re-appointing KPMG Audit Plc as the syndicate's registered auditor for a period of one year from the date of this annual report.

A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies. A proxy need not be a member of the syndicate.

A Form of Proxy is enclosed with this annual report and to be valid this Form of Proxy (and the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof) must reach The Company Secretary, Beazley Furlonge Limited, Plantation Place South, 60 Great Tower Street, London EC3R 5AD, at least 48 hours before the appointed time of the meeting or any adjournment thereof. A Form of Proxy is also available from The Company Secretary of Beazley Furlonge Limited.

### 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 ought to have taken as a director to make himself 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.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 require the directors of the managing agent to prepare financial statements for each financial year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit for that year.

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

1. Select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
2. Make judgements and estimates that are reasonable and prudent;
3. State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
4. 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 2004 Regulations. 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

**D A Horton**

Chief executive

5 March 2009

## Independent auditors' report to the members of syndicate 623

We have audited the syndicate 623 annual accounts for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, 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 auditors' 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 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 15.

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 have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you whether in our opinion the managing agent's report is consistent with the syndicate annual accounts.

In addition we report to you if, in our opinion, 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 judgments 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 2008 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  
8 Salisbury Square  
London EC4Y 8BB

5 March 2009

## Profit and loss account

Year ended 31 December 2008

	Notes	2008 £m	2007 £m
Gross premiums written	3	197.3	179.2
Outward reinsurance premiums		(27.9)	(28.0)
<b>Net premiums written</b>	<b>3</b>	<b>169.4</b>	<b>151.2</b>
Change in the gross provision for unearned premiums		(1.6)	10.8
Change in the provision for unearned premiums, reinsurers' share		(2.4)	(5.7)
Change in the net provision for unearned premiums		(4.0)	5.1
<b>Earned premiums, net of reinsurance</b>		<b>165.4</b>	<b>156.3</b>
Allocated investment return transferred from the non-technical account		(1.1)	12.2
Claims paid			
– Gross amount		(72.3)	(82.5)
– Reinsurers' share		16.2	24.1
<b>Net claims paid</b>		<b>(56.1)</b>	<b>(58.4)</b>
Change in the gross provision for claims		(43.3)	8.4
Change in the provision for claims, reinsurers' share		9.3	(20.0)
Change in the net provision for claims		(34.0)	(11.6)
<b>Claims incurred, net of reinsurance</b>		<b>(90.1)</b>	<b>(70.0)</b>
<b>Net operating expenses</b>	5	<b>(57.0)</b>	<b>(54.4)</b>
<b>Balance on the technical account</b>		<b>17.2</b>	<b>44.1</b>
Investment income		16.5	18.4
Investment expenses and charges, including value adjustments	9	(11.0)	(3.5)
Unrealised losses on investments		(6.6)	(2.7)
Allocated investment return transferred to general business technical account		(1.1)	12.2
Other charges	10	1.1	(12.2)
		(6.0)	(7.6)
<b>Profit for the financial year</b>		<b>11.2</b>	<b>36.5</b>

All of the above operations are continuing.

## Statement of total recognised gains and losses

Year ended 31 December 2008

	2008 £m	2007 £m
Profit for the financial year	11.2	36.5
Foreign exchange profit on brought forward reserves	9.7	0.6
<b>Total recognised gains and losses since last annual report</b>	<b>20.9</b>	<b>37.1</b>

## Balance sheet

31 December 2008

	Notes	2008 £m	2007 £m
<b>Assets</b>			
<b>Investments</b>			
Financial investments	11	317.9	296.8
Deposits with ceding undertakings		–	0.1
		<b>317.9</b>	<b>296.9</b>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums, reinsurers' share	4	16.7	14.9
Claims outstanding, reinsurers' share	4	120.5	103.1
		<b>137.2</b>	<b>118.0</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations		64.2	46.9
Debtors arising out of reinsurance operations		5.6	4.0
Other debtors	12	18.8	4.2
		<b>88.6</b>	<b>55.1</b>
<b>Cash at bank and in hand</b>	13	<b>47.2</b>	<b>35.7</b>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		25.3	19.4
Other prepayments and accrued income		0.9	1.1
		<b>26.2</b>	<b>20.5</b>
<b>Total assets</b>		<b>617.1</b>	<b>526.2</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Members' balances attributable to underwriting participations	14	14.5	35.4
<b>Technical provisions</b>			
Provision for unearned premiums	4	116.9	89.2
Claims outstanding	4	459.3	379.1
		<b>576.2</b>	<b>468.3</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		11.5	10.3
Creditors arising out of reinsurance operations		1.0	1.7
Other creditors	15	13.0	9.1
		<b>25.5</b>	<b>21.1</b>
Accruals and deferred income		0.9	1.4
<b>Total liabilities, capital and reserves</b>		<b>617.1</b>	<b>526.2</b>

The financial statements on pages 17 to 30 were approved by the board of Beazley Furlong Limited on 5 March 2009 and were signed on its behalf by:

**N P Maidment** (Active underwriter)

**D A Horton** (Chief executive)

## Cash flow statement

Year ended 31 December 2008

	Notes	2008 £m	2007 £m
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit on ordinary activities		<b>11.2</b>	<b>36.5</b>
Change to market value and currencies on investments		6.9	1.2
Foreign exchange adjustment on brought forward reserves		9.7	0.6
Increase/(decrease) in net technical provisions		88.7	(64.1)
(Increase)/decrease in debtors		(39.2)	30.2
Increase/(decrease) in creditors		3.9	(13.9)
<b>Net cash inflow from operating activities</b>		<b>81.2</b>	<b>(9.5)</b>
Transfer to members in respect of underwriting participations		(41.8)	(22.6)
	16	<b>39.4</b>	<b>(32.1)</b>
<b>Cash flows were invested as follows:</b>			
Increase/(decrease) in cash holdings		9.6	(4.1)
Increase/(decrease) in overseas deposits		1.9	(16.1)
Decrease/(increase) in debt securities and other fixed income securities		27.9	(11.9)
<b>Net investment of cash flows</b>	16	<b>39.4</b>	<b>(32.1)</b>

# Notes to the financial statements

Year ended 31 December 2008

## 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 UK. 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 cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

### (a) Premiums

Gross premiums written comprise premiums on contracts incepted 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.

### (b) Unearned premiums

Written premium is earned using the daily pro-rata method where the premium is apportioned over the period of risk. 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.

### (c) 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.

### (d) Acquisition costs

Acquisition costs comprise brokerage, staff and staff-related costs of the underwriters acquiring the business. 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.

### (e) 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.

### (f) 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.

### (g) 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.

## 2 Accounting policies continued

### (h) 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 28%) 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.

### (i) Pension costs

Beazley Furlonge 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

	Marine £m	Political risks and contingency £m	Property £m	Reinsurance £m	Specialty lines £m	Unallocated £m	Total £m
<b>2008</b>							
Gross premiums written	35.0	16.5	39.8	16.5	89.5	–	197.3
Net premiums written	30.1	13.2	33.7	13.6	78.8	–	169.4
Gross earned premiums	35.5	16.8	43.9	15.9	83.6	–	195.7
Outward reinsurance premiums	(5.4)	(3.5)	(7.2)	(2.7)	(11.5)	–	(30.3)
Earned premiums, net of reinsurance	30.1	13.3	36.7	13.2	72.1	–	165.4
Gross claims	(20.3)	(3.9)	(29.4)	(4.5)	(57.5)	–	(115.6)
Reinsurers' share	6.1	0.6	5.0	(0.6)	14.4	–	25.5
Claims incurred, net of reinsurance	(14.2)	(3.3)	(24.4)	(5.1)	(43.1)	–	(90.1)
Operating expenses before foreign exchange	(11.0)	(4.8)	(14.0)	(3.5)	(22.5)	–	(55.8)
Technical result before investment income	4.9	5.2	(1.7)	4.6	6.5	–	19.5
Loss on exchange	–	–	–	–	–	(1.2)	(1.2)
Investment loss	–	–	–	–	–	(1.1)	(1.1)
<b>Balance on technical account</b>	<b>4.9</b>	<b>5.2</b>	<b>(1.7)</b>	<b>4.6</b>	<b>6.5</b>	<b>(2.3)</b>	<b>17.2</b>
Claims ratio	47%	25%	66%	39%	60%	–	54%
Expenses ratio	37%	36%	38%	27%	31%	–	34%
Combined ratio	84%	61%	104%	66%	91%	–	88%

2007	Marine £m	Political risks and contingency £m	Property £m	Reinsurance £m	Specialty lines £m	Unallocated £m	Total £m
Gross premiums written	34.1	15.0	43.0	13.8	73.3	–	179.2
Net premiums written	30.1	13.8	36.5	12.1	58.7	–	151.2
Gross earned premiums	36.0	13.4	49.1	13.9	77.6	–	190.0
Outward reinsurance premiums	(3.6)	(1.9)	(7.4)	(2.3)	(18.5)	–	(33.7)
Earned premiums, net of reinsurance	32.4	11.5	41.7	11.6	59.1	–	156.3
Gross claims	(13.0)	(0.1)	(18.4)	0.6	(43.2)	–	(74.1)
Reinsurers' share	0.5	(1.7)	1.4	(3.6)	7.5	–	4.1
Claims incurred, net of reinsurance	(12.5)	(1.8)	(17.0)	(3.0)	(35.7)	–	(70.0)
Operating expenses before foreign exchange	(10.5)	(3.3)	(16.7)	(3.4)	(21.6)	–	(55.5)
Technical result before investment income	9.4	6.4	8.0	5.2	1.8	–	30.8
Profit on exchange	–	–	–	–	–	1.1	1.1
Investment income	–	–	–	–	–	12.2	12.2
<b>Balance on technical account</b>	<b>9.4</b>	<b>6.4</b>	<b>8.0</b>	<b>5.2</b>	<b>1.8</b>	<b>13.3</b>	<b>44.1</b>
Claims ratio	39%	16%	41%	26%	60%	–	45%
Expenses ratio	32%	29%	40%	29%	37%	–	35%
Combined ratio	71%	45%	81%	55%	97%	–	80%

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:

- Marine = Marine, aviation and transport
- Political risks and contingency = Pecuniary loss
- Property = Fire and other damage to property
- Reinsurance = Reinsurance
- Specialty lines = Third party liability

**Geographical origin of gross premiums written:**

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

	2008 £m	2007 £m
Risks located in UK	22.4	23.3
Risks located in US	106.8	89.6
Risks located in other countries	68.1	66.3
<b>Gross premium written</b>	<b>197.3</b>	<b>179.2</b>

## 4 Technical provisions

	Provision for unearned premium £m	Claims outstanding £m
<b>Gross technical provisions</b>		
As at 1 January 2008	89.2	379.1
RITC transferred to 2623	–	(66.4)
Exchange adjustments	26.1	103.3
Movement in the provision	1.6	43.3
<b>As at 31 December 2008</b>	<b>116.9</b>	<b>459.3</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2008	14.9	103.1
RITC transferred to 2623	–	(20.4)
Exchange adjustments	4.2	28.5
Movement in the provision	(2.4)	9.3
<b>As at 31 December 2008</b>	<b>16.7</b>	<b>120.5</b>
<b>Net technical provisions</b>		
As at 1 January 2008	74.3	276.0
<b>As at 31 December 2008</b>	<b>100.2</b>	<b>338.8</b>

Gross ultimate claims	2002 <sup>ae</sup>	2003	2004	2005	2006	2007	2008	
		%	%	%	%	%	%	%
<b>Marine</b>								
12 months		59.5	62.2	82.5	57.2	58.1	69.0	
24 months		45.6	65.9	80.7	42.3	59.7		
36 months		38.9	62.7	70.8	32.3			
48 months		36.1	62.1	69.0				
60 months		35.7	61.0					
72 months		35.6						
<b>Political risks and contingency</b>								
12 months		59.1	67.0	61.0	57.7	57.3	57.5	
24 months		36.4	55.7	38.2	36.3	38.3		
36 months		31.8	52.5	28.4	32.9			
48 months		29.0	38.1	25.2				
60 months		31.6	37.0					
72 months		25.6						
<b>Property</b>								
12 months		50.6	65.7	88.6	58.3	59.8	65.6	
24 months		37.0	65.2	85.1	43.5	57.9		
36 months		34.2	66.0	83.8	42.4			
48 months		33.6	64.1	88.9				
60 months		33.2	64.6					
72 months		33.3						
<b>Reinsurance</b>								
12 months		58.6	87.8	198.6	52.3	59.5	59.8	
24 months		34.2	82.8	191.4	25.4	25.8		
36 months		28.4	77.4	188.3	24.8			
48 months		28.7	74.9	182.2				
60 months		25.6	72.9					
72 months		25.7						
<b>Specialty lines</b>								
12 months		73.0	72.1	71.9	72.4	72.8	72.6	
24 months		70.1	71.0	71.9	72.4	72.4		
36 months		69.0	67.4	69.7	72.4			
48 months		60.0	64.5	66.5				
60 months		53.2	59.5					
72 months		52.5						
<b>Total</b>								
12 months		63.0	69.2	91.0	62.9	63.5	68.5	
24 months		52.5	69.2	88.4	52.9	58.9		
36 months		49.4	66.5	84.6	50.5			
48 months		44.8	63.7	83.2				
60 months		41.4	61.1					
72 months		40.8						
Total ultimate losses (£m)	1,310.1	331.1	575.7	858.8	583.1	731.2	803.1	5,193.1
Less paid claims (£m)	(1,095.4)	(222.2)	(374.3)	(535.9)	(174.7)	(133.8)	(25.9)	(2,562.2)
Less unearned portion of ultimate losses (£m)	–	–	–	–	–	(44.7)	(366.6)	(411.3)
<b>Gross claims liabilities (100% level) (£m)</b>	<b>214.7</b>	<b>108.9</b>	<b>201.4</b>	<b>322.9</b>	<b>408.4</b>	<b>552.7</b>	<b>410.6</b>	<b>2,219.6</b>
Less unaligned share (£m)	(167.5)	(84.9)	(157.1)	(251.9)	(318.6)	(447.7)	(332.6)	(1,760.3)
<b>Gross claims liabilities, 623 share (£m)</b>	<b>47.2</b>	<b>24.0</b>	<b>44.3</b>	<b>71.0</b>	<b>89.8</b>	<b>105.0</b>	<b>78.0</b>	<b>459.3</b>

## 4 Technical provisions continued

Net ultimate claims	2002 <sup>ae</sup>	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	
<b>Marine</b>								
12 months		55.3	57.7	55.3	54.1	55.2	61.2	
24 months		45.4	53.3	48.8	41.8	56.1		
36 months		40.1	48.6	42.5	32.4			
48 months		39.1	47.7	39.3				
60 months		39.0	46.5					
72 months		39.1						
<b>Political risks and contingency</b>								
12 months		56.8	63.7	63.4	56.3	55.5	56.0	
24 months		37.5	58.4	46.6	40.5	39.1		
36 months		35.0	54.2	35.9	37.4			
48 months		33.3	41.0	30.4				
60 months		35.6	40.6					
72 months		27.8						
<b>Property</b>								
12 months		48.3	59.8	65.1	60.9	62.4	65.5	
24 months		41.0	60.5	61.9	48.1	60.8		
36 months		38.5	60.2	58.4	46.4			
48 months		37.8	58.3	61.1				
60 months		37.4	58.0					
72 months		37.5						
<b>Reinsurance</b>								
12 months		59.9	88.6	152.3	54.2	55.2	67.6	
24 months		39.7	86.8	134.6	37.1	29.9		
36 months		33.9	83.2	128.1	34.8			
48 months		34.6	76.9	119.3				
60 months		31.7	73.5					
72 months		31.7						
<b>Specialty lines</b>								
12 months		68.4	69.0	69.1	69.0	71.5	70.4	
24 months		67.1	68.2	69.1	69.1	70.5		
36 months		66.1	65.5	67.3	69.1			
48 months		57.7	62.2	64.0				
60 months		52.7	56.9					
72 months		50.8						
<b>Total</b>								
12 months		59.9	65.4	73.0	62.1	64.1	66.0	
24 months		52.9	65.3	68.8	54.1	59.9		
36 months		50.4	62.6	64.9	51.5			
48 months		46.2	59.3	62.4				
60 months		43.7	56.3					
72 months		42.5						
Total ultimate losses (£m)	652.0	279.5	434.4	509.1	469.8	621.1	664.1	3,630.0
Less paid claims net of reinsurance (£m)	(573.4)	(194.2)	(281.2)	(272.9)	(162.8)	(125.7)	(25.0)	(1,635.2)
Less unearned portion of ultimate losses (£m)	–	–	–	–	–	(39.6)	(307.4)	(347.0)
<b>Net claims liabilities (100% level) (£m)</b>	<b>78.6</b>	<b>85.3</b>	<b>153.2</b>	<b>236.2</b>	<b>307.0</b>	<b>455.8</b>	<b>331.7</b>	<b>1,647.8</b>
Less unaligned share (£m)	(61.3)	(66.5)	(119.6)	(184.2)	(239.5)	(369.2)	(268.7)	(1,309.0)
<b>Net claims liabilities, 623 share (£m)</b>	<b>17.3</b>	<b>18.8</b>	<b>33.6</b>	<b>52.0</b>	<b>67.5</b>	<b>86.6</b>	<b>63.0</b>	<b>338.8</b>

## 5 Net operating expenses

	2008 £m	2007 £m
Acquisition costs	45.3	41.7
Change in deferred acquisition costs	(1.0)	3.2
Loss/(profit) on exchange	1.2	(1.1)
Administrative expenses	11.5	10.6
	<b>57.0</b>	<b>54.4</b>

### Administrative expenses include:

Audit services	0.1	0.1
----------------	-----	-----

Total fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to £1m (2007: £1m).

## 6 Staff costs

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

	2008 £m	2007 £m
Wages and salaries	4.6	4.4
Short-term incentive payments	1.9	1.5
Social security costs	0.7	0.6
Pension costs	0.6	0.5
	<b>7.8</b>	<b>7.0</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:

	2008 £m	2007 £m
Emoluments and fees	1.1	2.0
Contributions to defined contribution pension schemes	0.1	0.1
	<b>1.2</b>	<b>2.1</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 £0.1m (2007: £0.4m).

## 9 Investment expenses and charges

	2008 £m	2007 £m
Investment management expenses	0.3	0.2
Losses on the realisation of investments	10.7	3.3
	<b>11.0</b>	<b>3.5</b>

## 10 Other charges

	2008 £m	2007 £m
Profit commissions	6.0	7.6

## 11 Financial investments

	Market value		Cost	
	2008 £m	2007 £m	2008 £m	2007 £m
Debt securities				
– fixed interest	240.3	213.4	245.3	216.5
– floating interest	77.6	83.4	79.2	84.2
	<b>317.9</b>	<b>296.8</b>	<b>324.5</b>	<b>300.7</b>

## 12 Other debtors

	2008 £m	2007 £m
Amount due from syndicate 2623	11.6	1.2
Amounts due from members	2.9	2.7
Sundry debtors including taxation	4.3	0.3
	<b>18.8</b>	<b>4.2</b>

All insurance debtors relate to business transacted with brokers and intermediaries. These balances are due within one year.

## 13 Cash at bank and in hand

	2008 £m	2007 £m
Cash at bank and in hand	17.2	7.6
Overseas deposits	30.0	28.1
	<b>47.2</b>	<b>35.7</b>

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

## 14 Reconciliation of members' balances

	2008 £m	2007 £m
Members' balances brought forward at 1 January	35.4	20.9
Profit for the financial year	11.2	36.5
Foreign exchange on brought forward reserves	9.7	0.6
Profit distribution before members agents' fees – 2004 Year of account	–	(22.6)
Profit distribution before members agents' fees – 2005 Year of account	(21.3)	–
Advance distribution – 2006 Year of account*	(20.5)	–
<b>Members' balances carried forward at 31 December</b>	<b>14.5</b>	<b>35.4</b>

Members participate on 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 early distribution of the 2006 underwriting year's profit of \$29.5m has been revalued at the year end US dollar exchange rate of US\$1.44.

## 15 Other creditors

	2008 £m	2007 £m
Profit commissions	9.1	7.6
Sundry creditors including taxation and social security	3.9	1.5
	<b>13.0</b>	<b>9.1</b>

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

	2008 £m	2007 £m
Net cash inflow from the year	11.5	(20.2)
Cash flow – investments	27.9	(11.9)
Movement arising from cash flows	39.4	(32.1)
Changes in market value	–	–
Foreign exchange on brought forward investments	(6.9)	(1.2)
Total movement in investments net of financing	32.5	(33.3)
Investments as at 1 January	332.6	365.9
<b>Investments as at 31 December</b>	<b>365.1</b>	<b>332.6</b>

Of the cash outflow during the year, £11.9m (2007: £70.9m) was transferred to syndicate 2623 as part of the reinsurance to close.

## 17 Movement in cash and investments

	At 1 January 2008 £m	Cash flow £m	Changes to market value and currencies £m	At 31 December 2008 £m
Cash at bank and in hand	7.6	9.6	–	17.2
Overseas deposits	28.1	1.9	–	30.0
	<b>35.7</b>	<b>11.5</b>	<b>–</b>	<b>47.2</b>
<b>Investments:</b>				
Debt securities and other fixed income securities	296.8	28.0	(6.9)	317.9
Deposits with ceding undertakings	0.1	(0.1)	–	–
<b>Total investments</b>	<b>296.9</b>	<b>27.9</b>	<b>(6.9)</b>	<b>317.9</b>
<b>Total cash and investments</b>	<b>332.6</b>	<b>39.4</b>	<b>(6.9)</b>	<b>365.1</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 12.

The directors have shareholdings in Beazley Group plc which provides the capacity for syndicate 2623. Syndicate 2623 has capacity in 2008 of £659m (2007: £697m), 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 2008	Shareholding of Beazley Group plc as at 31 December 2007
J G W Agnew	135,000	114,263
A F Beazley	2,867,322	2,552,370
G P Blunden	72,713	72,713
A P Cox*	70,679	70,679
J D Fishburn	15,714	15,714
N H Furlonge	1,413,556	1,308,052
J G Gray	2,403,649	2,389,598
D A Horton	392,879	88,505
C M London**	200,000	–
N P Maidment	3,082,629	2,966,099
A R Manners	882,517	882,517
D G Marock***	6,527	6,527
A D Pomfret	16,500	16,500
J G Rowell#	–	4,904,010
C A Washbourn	12,736	12,736

\*Appointed on 10 October 2008.

\*\*Appointed on 20 August 2008.

\*\*\*Appointed on 8 December 2008.

#Resigned on 3 October 2008.

### 18 Related parties transactions continued

The syndicate paid AllianceBernstein Limited £0.1m in 2008 (2007: £0.2m) in respect of the investment services provided. G P Blunden, a non-executive director of Beazley Furlonge Limited, is an employee of AllianceBernstein Services Limited and a member of the investment committee.

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

- Beazley Solutions Limited
- Beazley USA Services Incorporated
- Beazley Limited
- Beazley Pte Limited

All of the above companies are service companies underwriting for syndicates 623 and 2623.

In 2008, Beazley acquired Beazley Underwriting Services Limited (formerly Momentum Underwriting Limited), which acts as a service company to syndicate 3623.

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 Names on syndicate 623.

Beazley has a licensed insurance company in the US (Beazley Insurance Company Inc (BICI)) to write business not normally available to the Names of the syndicates. The Group places reinsurance contracts from BICI with Beazley Group syndicates or other security in the future.

The syndicates will be charged commissions at 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 Names on syndicate 623.

### 19 Post balance sheet events

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

	2008 £m	2007 £m
2005 Year of account	–	21.3
2006 Year of account	13.4	20.5
2007 Year of account	–	–
	<b>13.4</b>	<b>41.8</b>

Syndicate 623  
at Lloyd's  
2006 year  
of account

embracing **risk** reducing **uncertainty**

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## 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 Byelaw (No.9 of 2005), applicable accounting standards in the United Kingdom and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2006 ("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 2006 year of account which has been closed by reinsurance to close at 31 December 2008; consequently the balance sheet represents the assets and liabilities of the 2006 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

This year Beazley Furlonge Limited gives notice that an annual general meeting of the members of syndicate 623 will be held at 3.30pm on Thursday, 23 April 2009 at Plantation Place South for the purpose of re-appointing KPMG Audit Plc as the syndicate's registered auditor for a period of one year from the date of this annual report.

A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies. A proxy need not be a member of the syndicate.

A Form of Proxy is enclosed with this annual report and to be valid this Form of Proxy (and the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof) must reach The Company Secretary, Beazley Furlonge Limited, Plantation Place South, 60 Great Tower Street, London EC3R 5AD, at least 48 hours before the appointed time of the meeting or any adjournment thereof. A Form of Proxy is also available from The Company Secretary of Beazley Furlonge Limited.

### 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 ought to have taken as a director to make himself 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 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 legislations in other jurisdictions.

By order of the board

**D A Horton**

Chief executive

5 March 2009

# Independent auditors' report to the members of syndicate 623

On its 2006 year of account

We have audited the syndicate 623 underwriting year accounts for the three years ended 31 December 2008, 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 Byelaw (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 auditors' 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 32.

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, if the underwriting year accounts are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

We read the 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 result for the 2006 closed year of account.

## KPMG Audit Plc

Chartered Accountants

Registered Auditor  
8 Salisbury Square  
London, EC4Y 8BB

5 March 2009

## Profit and loss account

For the 36 months ended 31 December 2008

	Notes	2006 year of account £m
<b>Syndicate allocated capacity</b>		<b>183.1</b>
Gross premiums written	7	202.8
Outward reinsurance premiums		(40.1)
<b>Earned premiums, net of reinsurance</b>	<b>7</b>	<b>162.7</b>
Allocated investment return transferred from the non-technical account		4.6
Reinsurance to close premiums received, net of reinsurance	2	131.3
		135.9
Gross claims paid		(64.5)
Reinsurers' share		14.6
<b>Claims incurred, net of reinsurance</b>		<b>(49.9)</b>
Reinsurance to close premiums payable, net of reinsurance	3	(154.2)
		(204.1)
Net operating expenses	5	(53.4)
<b>Balance on the technical account</b>	<b>7</b>	<b>41.1</b>
Investment income		10.3
Investment expenses and charges, including value adjustments	6	(5.7)
		4.6
Allocated investment return transferred to the technical account		(4.6)
Other charges		(7.2)
<b>Profit for the 2006 closed year of account</b>	<b>4</b>	<b>33.9</b>
Return on capacity, before members' agents' fees		18.5%

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

## Balance sheet

Closed at 31 December 2008

	Notes	2006 year of account £m
<b>Assets</b>		
Investments	8	158.9
Debtors	9	30.5
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	3	83.6
Cash at bank and in hand	12	30.3
Prepayments and accrued income		0.1
<b>Total assets</b>		<b>303.4</b>
<b>Liabilities</b>		
Amounts due to members	10	13.4
Reinsurance to close premium payable to close the account – gross amount	3	276.4
Creditors	11	13.0
Accruals and deferred income		0.6
<b>Total liabilities</b>		<b>303.4</b>

The underwriting year accounts on pages 34 to 41 were approved by the Board of Directors on 5 March 2009 and were signed on its behalf by:

**N P Maidment** (Active underwriter)

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

# Notes to the underwriting year accounts

Closed at 31 December 2008

## 1 Accounting policies

### Underwriting transactions

- (a) 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 years' 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.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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

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

### Investment return

- (g) 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 return arising in each calendar year is 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 which funded these deposits.
- (h) The investment return is wholly allocated to the technical account.
- (i) 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

- (j) 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 which reflects the benefit obtained by each year of account from each type of expense.
- (k) 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
  - Other costs – as appropriate in each case

## Taxation

(l) 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.

(m) No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

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

## Basis of currency translation

(n) The syndicate operates in four separate currency funds of Sterling, Euro, United States ("US") dollars and Canadian dollars. Items expressed in US dollars, Euros and Canadian dollars are translated to Sterling at the three years' average rates of exchange ruling at the balance sheet date. The Euro, US dollar and Canadian dollar three years' average exchange rates ruling at 31 December 2008 are Euro 1.40, US\$1.90 and C\$2.06.

## 2 Reinsurance to close premiums received

2006 year  
of account  
£m

Gross reinsurance to close premium received	188.1
Reinsurance recoveries anticipated	(56.8)
<b>Reinsurance to close premium received, from 2005 and earlier, net of reinsurance</b>	<b>131.3</b>

## 3 Reinsurance to close premiums payable

2006 year  
of account  
£m

Gross reinsurance to close premium payable	(276.4)
Reinsurance recoveries anticipated	83.6
Foreign exchange	38.6
<b>Reinsurance to close premium payable to 2007, net of reinsurance</b>	<b>(154.2)</b>

## 4 Analysis of the 2006 year of account result

2006 year  
of account  
£m

Amount attributable to business allocated to the 2006 year of account	23.5
Surplus on the reinsurance to close for the 2005 year of account	10.4
	<b>33.9</b>

## 5 Net operating expenses

2006 year  
of account  
£m

Acquisition costs	41.5
Administrative expenses	17.6
Gain on exchange	(5.7)
	<b>53.4</b>
<b>Administrative expenses include:</b>	
Audit services	0.1

## 6 Investment expenses and charges

	2006 year of account £m
Investment management expenses	0.3
Loss on the realisation of investments	5.4
	<b>5.7</b>

## 7 Segmental analysis

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

2006 year of account	Marine £m	Political risks and contingency £m	Property £m	Reinsurance £m	Specialty lines £m	Unallocated £m	Total £m
Gross premiums written	37.9	15.3	51.4	15.6	82.6	–	202.8
Outward reinsurance premiums	(5.7)	(3.6)	(9.0)	(5.0)	(16.8)	–	(40.1)
Earned premiums, net of reinsurance	32.2	11.7	42.4	10.6	65.8	–	162.7
Net claims	(9.8)	(2.6)	(20.3)	(2.4)	(37.7)	–	(72.8)
Operating expenses	(9.0)	(3.6)	(16.0)	(3.2)	(21.6)	–	(53.4)
Technical account result before Investment Income	13.4	5.5	6.1	5.0	6.5	–	36.5
Investment income	–	–	–	–	–	4.6	4.6
<b>Balance on technical account</b>	<b>13.4</b>	<b>5.5</b>	<b>6.1</b>	<b>5.0</b>	<b>6.5</b>	<b>4.6</b>	<b>41.1</b>
Claims ratio	30%	22%	48%	23%	57%	–	45%
Expense ratio	28%	31%	38%	30%	33%	–	33%
Combined ratio	58%	53%	86%	53%	90%	–	78%

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

- Marine = Marine, aviation and transport
- Political risks and contingency = Pecuniary loss
- Property = Fire and other damage to property
- Reinsurance = Reinsurance
- Specialty Lines = Third party liability

### Geographical origin of gross premiums written:

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

	2006 year of account £m
Risks located in UK	24.3
Risks located in US	107.5
Risks located in other countries	71.0
<b>Gross premiums written</b>	<b>202.8</b>

## 8 Investments

At market value	2006 year of account £m
Debt securities	<b>158.9</b>

## 9 Debtors

	2006 year of account £m
Arising out of direct insurance operations	5.5
Arising out of reinsurance operations	0.5
Members' agents' fees	0.9
Other debtors, including taxation	23.6
	<b>30.5</b>

## 10 Amounts due to members

	2006 year of account £m
Profit for the 2006 closed year of account	33.9
Transfers to members' personal reserve funds in 2007 and 2008	(20.5)
<b>Amounts due to members at 31 December 2008</b>	<b>13.4</b>

## 11 Creditors

	2006 year of account £m
Arising out of direct insurance operations	2.7
Arising out of reinsurance operations	0.2
Profit commission payable	7.2
Amount owing to syndicate 2623	2.9
	<b>13.0</b>

## 12 Cash at bank and in hand

	2006 year of account £m
Cash at bank and in hand	8.6
Overseas deposits	21.7
	<b>30.3</b>

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

## 13 Related party transactions

Please refer to page 29 for further details of related party transactions for the 2006 year of account.

## Seven-year summary of closed year results at 31 December 2008

	2006	2005	2004	2003	2002	2001	2000
Syndicate allocated capacity – £000s	183,100	222,300	344,600	330,000	325,000	215,317	125,186
Capacity utilised	89%	94%	94%	97%	86%	109%	108%
Number of underwriting members	2,211	1,501	1,560	1,675	1,612	1,351	960
Aggregate net premiums – £000s	122,707	147,330	207,541	222,451	181,641	143,785	79,102
Net capacity utilised	67%	66%	60%	67%	56%	67%	63%
Underwriting profit as a percentage of gross premiums	31.1%	18.1%	18.5%	27.8%	23.2%	3.1%	3.0%
Return on capacity	18.5%	9.6%	8.4%	16.3%	13.5%	0.6%	0.6%
<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	8,892	8,644	7,920	8,800	8,609	10,943	10,810
Net premiums	6,702	6,628	6,023	6,741	5,589	6,678	6,319
Reinsurance to close from an earlier account	6,986	5,958	4,508	2,870	4,085	3,897	6,146
Net claims	(2,614)	(3,323)	(3,313)	(2,176)	(2,299)	(3,829)	(5,073)
Reinsurance to close the year of account	(8,424)	(7,847)	(5,893)	(5,116)	(5,375)	(6,405)	(7,066)
Underwriting profit	2,650	1,416	1,325	2,319	2,000	341	326
Profit/(loss) on exchange	309	(33)	(29)	29	(8)	64	(22)
Syndicate operating expenses	(752)	(626)	(469)	(526)	(405)	(512)	(524)
Balance on technical account	2,207	757	827	1,822	1,587	(107)	(220)
Gross investment return	249	564	431	337	234	341	488
Profit before personal expenses	2,456	1,321	1,258	2,159	1,821	234	268
<b>Illustrative personal expenses</b>							
Illustrative personal expenses	(209)	(157)	(234)	(184)	(184)	(159)	(185)
Managing agent's profit commission	(393)	(205)	(182)	(345)	(285)	(17)	(21)
Profit after illustrative profit commission and personal expenses	1,854	959	842	1,630	1,352	58	62

### 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 Furlonge 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 – Deputy chairman  
George P Blunden \*  
Adrian P Cox  
J Dudley Fishburn \*  
Nicholas H Furlonge  
Jonathan G Gray  
D Andrew Horton – Chief executive  
Chris M London \*  
Neil P Maidment  
Arthur R Manners  
David G Marock  
Andy D Pomfret \*  
Clive A Washbourn

\*non-executive director

**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

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**Beazley Furlonge Limited**

Syndicate 623/2623/3622/3623 at Lloyd's

Plantation Place South  
60 Great Tower Street  
London EC3R 5AD

Phone +44 (0)20 7667 0623  
Fax +44 (0)20 7674 7100  
[www.beazley.com](http://www.beazley.com)

# Beazley Furlonge Limited

Syndicate 623

Form of Proxy for use at the Annual General Meeting of the Members of Beazley Syndicate 623 to be held at the offices of Beazley Group plc, Plantation Place South, 60 Great Tower Street, London EC3R 5AD on 23 April 2009 at 3.30pm.

Before completing this Form of Proxy please read the notes carefully.

I, the undersigned, being a member, hereby appoint the Chairman of the meeting

(see note 1 – enter details on the two lines below only if you wish to appoint a member other than the Chairman of the meeting as your proxy)

Name of Proxy (FULL NAME IN BLOCK CAPITALS).....

Proxy's Membership Number (if known) .....

as my proxy to vote on my behalf at the Annual General Meeting of Syndicate 623 to be held on 23 April 2009 and at any adjournment thereof. I direct my proxy to vote in the manner indicated below on the resolution set out in the notice and at the proxy's discretion on any other resolution before the meeting.

(Unless you wish to confer discretion upon your proxy on the resolution set out in the notice, please indicate which way your proxy is to vote by marking the appropriate box with an "X" or a tick. Only one box is to be marked.)

## RESOLUTION

No.	Type of Resolution	Resolution	For	Against	Abstain
1	Ordinary	To re-appoint KPMG Audit Plc as the Syndicate's registered auditor			

Signed this ..... day of ..... 2009

Signature .....

Signature of the member or authorised representative of the corporate member

Name of Member ..... Membership Number .....

(Please print your full name, or name of the corporate member, in block capitals)

Address .....

To vote by proxy at the AGM return this Form of Proxy to The Company Secretary, Beazley Furlonge Limited, Plantation Place South, 60 Great Tower Street, London EC3R 5AD at least 48 hours before the appointed time of the Meeting or any adjournment thereof.



## NOTES ON COMPLETION OF FORM OF PROXY

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies. You may, if you wish, delete "the Chairman of the meeting" and insert the name of another member of the syndicate as your proxy in the space provided. If you wish to appoint another member of the Society as your proxy you should inform the member concerned in addition to returning this Form of Proxy to The Company Secretary, Beazley Furlonge Limited, Plantation Place South, 60 Great Tower Street, London EC3R 5AD. Please note that only members of the syndicate may be appointed as proxies.
2. To be valid this Form of Proxy (and the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof) must reach The Company Secretary, Beazley Furlonge Limited, Plantation Place South, 60 Great Tower Street, London EC3R 5AD, at least 48 hours before the appointed time of the Meeting or any adjournment thereof.
3. In the case of a corporation, this Form of Proxy must be executed under its common seal or signed on its behalf by an officer or attorney duly authorised. In the case of an individual, this Form of Proxy must be signed by the appointee or his or her attorney duly authorised.
4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders and for this purpose seniority will be determined by the order in which the names stand in the Register of Members.
5. Any alterations made to this Form of Proxy must be initialled.
6. The chair at the Annual General Meeting will be taken by the Chairman or by a Deputy Chairman of Beazley Furlonge Limited.
7. The appointment of a proxy will not prevent a member from attending and voting in person nor a duly authorised representative of a corporate or enfranchised member from attending and voting on behalf of the corporate or enfranchised member, but in the event the proxy will not be entitled to vote on behalf of the member. For the corporate representative or the representative of the enfranchised member to attend and vote in this way, evidence of authorisation of the representative must have been provided.
8. An executor or other personal representative of a deceased member or appropriate representative of a bankrupt or insolvent member may be able to exercise voting rights on behalf of the deceased member or bankrupt or insolvent member as the case may be. The following must be lodged with this Form of Proxy as evidence of the authorisation of the individual signing the form:
  - a) representatives of deceased members with open capacity: the original grant of probate or letters of administration or a copy thereof certified by the Record Keeper of the Principal Registry, a district judge or registrar;
  - b) representatives of bankrupt or insolvent members with open capacity:
    - i) the original bankruptcy order or a copy thereof certified by the Official Receiver or an Insolvency practitioner;
    - ii) the original deed of appointment by a mortgagee or debenture-holder or a copy thereof certified by the person appointing the receiver or its solicitor and acceptance or a copy of the deed of appointment certified by the receiver;
    - iii) the certificate of the Official Receiver of the appointment of a trustee or a certified copy of the letter from the Secretary of State (DTI) (or successor department) appointing the trustee or, if the Official Receiver is the trustee, a letter from the Official Receiver confirming that it will act as the trustee; or
    - iv) the original court order appointing a representative or a copy thereof certified by a solicitor and bearing the original certification signature.
9. A corporate member (including a Scottish Limited Partnership, LLP or a Nameco) should arrange for a duly authorised individual to sign this Form of Proxy on its behalf. Evidence of the authorisation of the individual by resolution of the corporate member's directors or other governing body, giving the name and the title of the individual authorised to sign this Form of Proxy on the corporate member's behalf, must be lodged with this Form of Proxy in accordance with paragraph 1 above by 3.30pm on Tuesday 21 April 2009.
10. If this Form of Proxy is signed by a person authorised by power of attorney to sign on behalf of the member, the power of attorney or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power must be returned to reach The Company Secretary, Beazley Furlonge Limited, Plantation Place South, 60 Great Tower Street, London EC3R 5AD not later than 3.30pm on Tuesday 21 April 2009.
11. If this Form of Proxy is returned without any indication as to how the person appointed shall vote, the proxy will exercise discretion as to how to vote, or whether to abstain from voting, on the resolution set out in the notice of the meeting. The proxy may also vote at his discretion on any other resolution which may properly be put to the meeting.