

**Report and Financial Statements**

**Global Capital Underwriting Limited**

**Year Ended  
31 December 2001**



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# GLOBAL CAPITAL UNDERWRITING LIMITED

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## REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the company for the year ended 31 December 2001.

### Statement of Director's Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with applicable accounting standards subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps that are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

### Review of the Business and Future Developments

The principal activity of the company continued to be carrying on business as an underwriting member of Lloyd's and to underwrite insurance and reinsurance business as a limited liability dedicated corporate member through Syndicate 2741, managed by Chartwell Managing Agents Limited. Syndicate 2741 wrote in parallel to Syndicate 741, also managed by Chartwell Managing Agents Limited taking 20% of the combined book of business for the 1999 year of account. The combined syndicates wrote a marine account.

The company's underwriting capacity for the 1999 year of account was £6.5 million.

Syndicate 2741 closed the 1999 year of account with a loss of 30.2% of capacity after taking into account personal expenses.

During 1999 it was proposed and accepted that Syndicates 741 and 2741 along with three other Chartwell Managing Agents Ltd managed syndicates would be merged under an enlarged Composite 839 syndicate for the 2000 year of account. The company sold its rights to participate on the 2000 year of account in the 1999 capacity auctions and therefore, ceased underwriting from 1 January 2000.

### Results and Dividends

The results for the year and the state of the company's affairs as at 31 December 2001 are shown in the financial statements.

The directors do not propose the payment of a dividend (2000 £-nil).

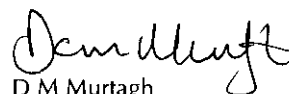
The directors propose to transfer £614,679 from retained reserves (2000 £ 995,564).

### Directors

The individuals who served as directors during the period from 1 January 2001 to the date of this report are listed below:

H C V Keeling  
D M Murtagh

None of the directors have, according to the register of directors' interests, any interests in the shares of the company.



D M Murtagh  
Secretary

Fitzwilliam House  
10 St Mary Axe  
London EC3A 8NL

28 June 2002

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GLOBAL CAPITAL UNDERWRITING LIMITED

We have audited the financial statements on pages 4 to 14 which have been prepared in accordance with the accounting policies set out on pages 8 to 10.

### Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

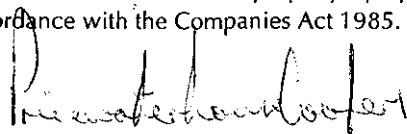
### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 financial statements 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 financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY

28 June 2002

# GLOBAL CAPITAL UNDERWRITING LIMITED

## PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2001

TECHNICAL ACCOUNT - GENERAL BUSINESS	Note	Year ended 31 December 2001 £	Year ended 31 December 2000 £
<b>Written premiums, net of reinsurance</b>			
Gross premiums written	2	282,504	765,202
Reinsurance to close premium payable		(2,887,455)	-
Outward reinsurance premiums		(66,625)	(497,137)
<b>Net written premiums</b>		<b>(2,671,576)</b>	<b>268,065</b>
Allocated investment return transferred from the non-technical account		65,680	132,301
<b>Total technical income</b>		<b>(2,605,896)</b>	<b>400,366</b>
<b>Claims incurred, net of reinsurance</b>			
Gross claims paid		(3,288,828)	(5,326,245)
Reinsurers' share		1,093,528	2,461,722
Change in provision for claims		6,741,706	2,527,327
Reinsurers' share		(2,586,418)	(713,825)
		<b>1,959,988</b>	<b>(1,051,021)</b>
<b>Operating expenses</b>			
Administrative expenses		(327,055)	(305,214)
Exchange adjustment		53,001	389,153
Personal expenses		(1,250)	(1,800)
Acquisition costs		(16,885)	(429,402)
		<b>(292,189)</b>	<b>(347,263)</b>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<b>£(938,097)</b>	<b>£(997,918)</b>

# GLOBAL CAPITAL UNDERWRITING LIMITED

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 2001

NON-TECHNICAL ACCOUNT	Notes	2001 Total £	2000 Total £
<b>Balance on the general business technical account</b>		(938,097)	(997,918)
Investment income		80,424	163,325
Allocated investment return transferred to the general business technical account		(65,680)	(132,301)
Other operating expenses	3	(58,020)	(17,478)
Operating loss		(981,373)	(984,372)
<b>Profit on ordinary activities before tax</b>	4	(981,373)	(984,372)
Taxation	5	366,694	(11,192)
<b>Loss on ordinary activities After tax</b>		(614,679)	(995,564)
<b>Dividend</b>		-	-
<b>Retained loss</b>	11	£(614,679)	£(995,564)

All income and expenses are related to discontinued activities. As explained on page 2 these activities were discontinued on 1 January 2000.

There were no recognised gains or losses for the financial year other than those reported in the Profit and Loss Account.

# GLOBAL CAPITAL UNDERWRITING LIMITED

## BALANCE SHEET

As at 31 December 2001

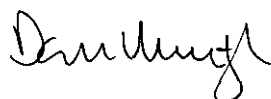
ASSETS	Notes	2001 £	2000 £
<b>Investments</b>			
Other financial investments	6	465,940	466,605
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding		2,784,818	2,586,418
<b>Debtors</b>			
Debtors arising out of direct insurance operations - intermediaries		3,799	101,042
Debtors arising out of reinsurance operations		1,556,633	4,051,483
Other debtors	7	403,029	91,298
		<hr/>	<hr/>
		1,963,461	4,243,823
		<hr/>	<hr/>
<b>Other assets</b>			
Cash at bank and in hand – Company	8	58,449	514,556
Cash at bank and in hand – Syndicate		520,099	1,388,092
		<hr/>	<hr/>
		578,548	1,902,648
		<hr/>	<hr/>
<b>Prepayments and accrued income</b>			
Accrued interest		-	30,359
Other prepayments and accrued income		3,020	5,861
		<hr/>	<hr/>
		3,020	36,220
		<hr/>	<hr/>
<b>Total assets</b>		<hr/> <b>£5,795,787</b> <hr/>	<hr/> <b>£9,235,714</b> <hr/>

# GLOBAL CAPITAL UNDERWRITING LIMITED

## BALANCE SHEET 31 December 2001

LIABILITIES	Notes	2001 £	2000 £
<b>Capital and reserves</b>			
Called up share capital	9	500,000	500,000
Profit and loss account	10	(2,804,100)	(2,189,421)
<b>Shareholders funds attributable to equity interest</b>	11	(2,304,100)	(1,689,421)
<b>Technical provisions</b>			
Claims outstanding		5,672,274	9,044,121
<b>Creditors</b>			
Arising out of direct insurance operations		276	2,024
Arising out of reinsurance operations		323,720	541,607
Other creditors including taxation and social security	12	2,054,676	1,313,297
		2,378,672	1,856,928
<b>Accruals and deferred income</b>		48,941	24,086
<b>Total liabilities</b>		£5,795,787	£9,235,714

These accounts were approved by the Board of Directors on 28 June 2002 and signed on its behalf by:



D M Murtagh  
Director

28 June 2002



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2001

### 1. Accounting Policies

#### **Disclosure requirements and standard accounting practice**

The financial statements have been prepared in compliance with the provisions relating to insurance companies of section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards. The company had adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998 and Technical Release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles" issued by ICAEW.

The financial statements have been prepared on a going concern basis as a group undertaking, XL London Market Group plc, has indicated that it intends to provide such funds as are necessary for the company to continue to trade for the foreseeable future.

#### **Basis of accounting**

The technical results are determined using a three year fund basis of accounting, as the directors do not believe the annual basis to be appropriate because of delays in receipt of information. Under the funded basis of accounting, premiums, claims and expenses are carried forward as a fund and profit recognition is deferred normally until the end of the third year from the start of an underwriting year when the underwriting account is closed by reinsurance into the following year of account. Any anticipated underwriting losses are recognised as soon as they are foreseen.

#### **Cashflow Statement**

No cashflow statement is presented since FRS1 (revised) exempts the company from the requirement to do so as the consolidated financial statements of XL Capital Ltd, the company's ultimate parent, include a group cashflow statement.

#### **Underwriting transactions**

All premiums included in the profit and loss account relate to discontinued operations and are shown gross of commission payable to intermediaries and include estimates of any premiums due but not yet received or notified to the company by intermediaries.

Premiums and reinsurance premiums ceded, claims and associated reinsurance recoveries are allocated to the appropriate years of account on the basis of the policy inception date.

#### **Reinsurance to Close**

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written.

If the company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the company has assumed a greater proportion of the business of the syndicates. If the company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the company's exposure to risks previously written by the syndicates. The excess representing the increase or reduction in percentage participation is shown in the technical account as gross premiums written or reinsurance premiums payable as appropriate.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2001

### 1. Accounting Policies (continued)

#### **Incurred Claims and reinsurance recoveries**

Paid claims represent all claims paid during the year and include claims handling expenses. Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in claim management processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment

- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmark

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these regard is paid to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

#### **Liability claims**

Liability claims are longer tail and so a larger element of the claims provision relates to IBNR claims. Claims estimates for the company's liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. The assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2001

### 1. Accounting Policies (continued)

#### Liability Claims (continued)

This class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

#### Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims IBNR are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurers.

#### Acquisition costs

Acquisition costs, which include commission and other expenses, comprise direct and indirect costs arising from insurance contracts.

#### Technical provisions

The excess of premium written and investment return over the costs of claims and expenses on each underwriting year is carried forward for two years and no profit is recognised until the end of the third year following the start of each underwriting year. At the end of the third year, and thereafter, provision is made for the estimated cost of outstanding claims, including incurred but not reported (IBNR), anticipated reinsurance recoveries and claims handling expenses.

Provision is made for open year losses as soon as they can be foreseen. Losses are estimated by reference to the ultimate result expected from the premium written.

The insurance fund is included within the technical provision for claims outstanding and is assessed after making full provision for the estimated ultimate costs of all claims, including the related expenses whether reported or not, in respect of each underwriting year. The level of the insurance fund is established using statistical projections of the amounts which the company expects the ultimate settlement will cost, based on the current facts and circumstances.

#### Translation of foreign currencies

Assets, liabilities and underwriting transactions in the principal overseas currencies, namely US and Canadian dollars, in which the company transacts business are translated into sterling at the year end rates. Transactions in other currencies are generally translated at the rates ruling at the dates of the transactions. All exchange differences arising from insurance activities are dealt with in the profit and loss account.

#### Investments

All investments are stated at mid-market value in the balance sheet. Unrealised gains and losses are taken to the profit and loss account.

Where investments represent the company's share of syndicate investments, they are treated as sold and repurchased each year end in recognition of the annual nature of participation on a syndicate. The cost of these investments is therefore their market value at each 31 December.

#### Investment income

Investment income comprises interest and dividends receivable, together with realised and unrealised investment gains. Realised gains are calculated as the difference between net sale proceeds and cost or, if previously revalued, the valuation as at the last balance sheet date.

All investment income is taken initially to the non-technical account. The amount of investment income earned from the underwriting activities of the syndicate is then allocated and transferred to the technical account.

#### Taxation

Provision is made for taxation on the profits of the company when they are recognised. The taxable result, net of personal expenses, will be accounted by the managing agent of the syndicate to the Members Services Unit of the Corporation of Lloyd's on behalf of its underwriting members, once the year of account reaches the thirty-six month stage, and any United Kingdom taxation payable will become due at the time the results for the year of account are declared.

# GLOBAL CAPITAL UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2001

### 2. Segmental analysis

#### i) Gross premiums written & gross claims incurred

The business noted below has all been underwritten in the Lloyd's insurance market or in the United Kingdom, which has been treated as one geographical segment and class of business for the purposes of Statement of Standard Accounting Practice No. 25: Segmental Reporting.

	Gross premiums Written 2001 £	Gross premiums Written 2000 £	Gross claims Incurred 2001 £	Gross claims Incurred 2000 £
<b>Direct Insurance</b>				
Accident & health	(125)	(535)	(483)	(1,626)
Marine, aviation. & Transport	188,142	694,053	(1,098,147)	(1,622,302)
Fire & damage to property	13,292	161,512	(165,075)	(322,315)
Third party liability	(10,008)	(121,483)	(53,886)	2,761
Other	(509)	6,030	4,488	(480,327)
<b>Total Direct</b>	<b>190,792</b>	<b>739,577</b>	<b>(1,313,103)</b>	<b>(2,423,809)</b>
<b>Reinsurance business</b>				
Reinsurance acceptances	91,712	25,625	119,158	(159,792)
RITC from earlier years	-	-	(1,025,450)	(215,317)
<b>Total reinsurances</b>	<b>91,712</b>	<b>25,625</b>	<b>(906,292)</b>	<b>(375,109)</b>
<b>Total</b>	<b>282,504</b>	<b>765,202</b>	<b>(2,219,395)</b>	<b>(2,798,918)</b>

#### ii) Operating expenses and reinsurance balance

	Operating Expenses 2001 £	Operating Expenses 2000 £	Reinsurance Balance 2001 £	Reinsurance Balance 2000 £
<b>Direct insurance</b>				
Accident & health	(53)	(1)	(6,202)	(2,625)
Marine, aviation & transport	(240,871)	(311,716)	1,010,880	(107,765)
Fire & damage to property	(23,046)	(58,066)	109,053	50,259
Third party liability	(5,313)	14,399	33,990	(149,592)
Other	(12,177)	(5,298)	(9,992)	251,096
<b>Total direct</b>	<b>(281,460)</b>	<b>(360,682)</b>	<b>1,137,729</b>	<b>41,373</b>
<b>Reinsurance business</b>				
Reinsurance acceptances	(10,729)	9,859	52,797	1,123,989
RITC to close earlier years	-	-	34,777	88,958
<b>Total reinsurances</b>	<b>(10,729)</b>	<b>9,859</b>	<b>87,574</b>	<b>1,212,947</b>
<b>Total</b>	<b>(292,189)</b>	<b>(350,823)</b>	<b>1,225,303</b>	<b>1,254,320</b>

# GLOBAL CAPITAL UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2001

### 3. Other operating expenses

The company has no employees other than the directors. All directors are non-executive. No director received any remuneration from the company.

### 4. Profit on ordinary activities before tax

The profit on ordinary activities before tax is stated after charging:

	2001 £	2000 £
Auditors' remuneration	<u>6,500</u>	<u>8,000</u>

### 5. Taxation on Profit on Ordinary Activities

	2001 £	2000 £
United Kingdom Corporation Tax		
On loss for the period at 30% (2000 30%)	(368,372)	(9,708)
Prior period adjustment	-	20,900
Foreign taxation	<u>1,678</u>	<u>-</u>
	<u>£(366,694)</u>	<u>£11,192</u>

As at 31 December 2001, no provisions were made for deferred tax assets on losses totalling £589,304 (2000 £664,175) because the recovery of the tax can not be reasonably assumed.

### 6. Investments

	2001 £	2000 £
Other	<u>£465,940</u>	<u>£466,605</u>

All investments are held by the syndicate. As explained in note 1 there is no difference between cost and market value.

### 7. Other debtors

	2001 £	2000 £
Amount due from group undertakings	-	45,477
Corporation taxation	378,840	9,708
Other debtors	24,189	36,113
	<u>£403,029</u>	<u>£91,298</u>

# GLOBAL CAPITAL UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2001

### 8. Cash at bank and in hand - Company

Included within cash at bank at 31 December 2000 was a deposit of £500,000 which formed part of the company's Funds at Lloyd's to support its underwriting. Lloyd's had a fixed and floating charge over this deposit to secure the company's liabilities to policyholders.

### 9. Called up share capital

	2001 £	2000 £
<b>Authorised</b>		
500,000 Ordinary shares of £1 each	<u>£500,000</u>	<u>£500,000</u>
<b>Allotted issued and fully paid</b>		
500,000 Ordinary shares of £1 each	<u>£500,000</u>	<u>£500,000</u>

### 10. Profit and loss account

	2001 £	2000 £
Balance at 31 December 2000	£(2,189,421)	£(1,193,857)
Retained loss	(614,679)	(995,564)
Balance at 31 December 2001	<u>£(2,804,100)</u>	<u>£(2,189,421)</u>

### 11. Reconciliation of movements in equity shareholders' funds

	2001 £	2000 £
Shareholders' funds brought forward	£(1,689,421)	£(693,857)
Retained loss for the period	(614,679)	(995,564)
Shareholders' funds at 31 December	<u>£(2,304,100)</u>	<u>£(1,689,421)</u>

### 12. Other creditors including taxation and social security

	2001 £	2000 £
Amount due to group undertakings	755,834	75,603
Other creditors	1,298,842	1,237,694
	<u>£2,054,676</u>	<u>£1,313,297</u>

## **GLOBAL CAPITAL UNDERWRITING LIMITED**

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### **Notes to the Financial Statements for the year ended 31 December 2001**

#### **13. General Contingencies and Capital Commitments**

Of the total assets disclosed on the company's balance sheet, £5.4m (2000: £8.6m) of which £0.5m (2000: £0.5m) are investments, are subject to Lloyd's Premium Trust Funds ("PTFs") or will become subject to the PTFs on realisation. These funds will only be released to the company on the closing of the 1999 year of account in 2002.

#### **14. Ultimate holding company**

The company's ultimate holding company is XL Capital Ltd, a company domiciled in Bermuda and registered in the Cayman Islands.

#### **15. Related party transactions**

The company has taken advantage the exemption under FRS 8 not to disclose inter group related party transactions.