

Global Capital Underwriting Limited

**Directors' Report and Financial Statements
for the year ended 31 December 1998**

Company Registration No. 3228029



Global Capital Underwriting Limited

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Global Capital Underwriting Limited

Officers and Professional Advisers

Directors

K B Connell - Chairman
Henry C V Keeling.

Secretary and Registered Office

P S Giordano
2 Minster Court
Mincing Lane
London
EC3R 7FL

Auditors

PricewaterhouseCoopers
Chartered Accountants
1 Embankment Place
London
WC2N 6NN

Solicitors

Titmus Sainer Dechert
2 Sarjeants Inn
London
EC4Y 1LT

Global Capital Underwriting Limited

Directors' Report

The Directors present their report and the audited financial statements of the company for the year ended 31 December 1998.

Results and dividend

The results for the period ended 31 December 1998 are set out in the accounts on pages 6 to 15. The net gain before tax for the period amounts to £10,500. No dividend is proposed.

Company's business

The company's business is that of a corporate underwriting member of Lloyd's. The company places all of its underwriting capacity on syndicate 2741 a parallel syndicate to syndicate 741, Peter Wright & Others. Syndicate 2741 was formed for the 1997 underwriting year with a capacity of £6.5 million and the syndicate writes a proportionate share of all business based on the combined capacities of syndicates 2741 and 741.

The company's underwriting capacity for the 1998 and 1999 underwriting years is £6.5 million.

Income and Corporation Taxes Act 1988

In the opinion of the directors the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the company, and there has been no change in this respect since the end of the financial period.

Directors

The present directors of the company are listed on page 2.

The directors who served during the year were:

K B Connell	(appointed 19 November 1997)
J K Witherspoon	(appointed 15 August 1996, resigned 21 October 1998)
Henry C V Keeling	(appointed 21 October 1998)

No director had any beneficial interest in the shares of the company.

No director had any material interest in any contract with the company which was significant in relation to the business of the company.

Auditors

On October 21, 1998 Coopers & Lybrand resigned as the company's auditors and Pricewaterhouse Coopers were appointed. A resolution to re-appoint Pricewaterhouse Coopers as the company's auditors will be proposed at the Annual General Meeting.

By order of the Board


Henry C V Keeling

Director

24 June 1999

Global Capital Underwriting Limited

Statement of Directors' 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 as at the end of the financial year 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;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company, the prevention and detection of fraud and other irregularities.

Global Capital Underwriting Limited

Auditors' Report to the Members of Global Capital Underwriting Limited

We have audited the financial statements on pages 6 to 16 which have been prepared in accordance with the accounting policies set out on pages 10 to 13.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 4, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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.

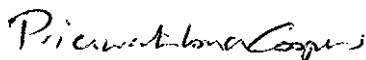
Basis of audit opinion

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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Pricewaterhouse Coopers
Chartered Accountants and Registered Auditors

30 June 1999

1 Embankment Place
London
WC2N 6NN

Global Capital Underwriting Limited

Profit and Loss Account for the year ended 31 December 1998

Technical Account - General Business

	Note	Year ended 31 December 1998 £	22 July 1996 to 31 December 1997 £
Earned premium, net of reinsurance			
Gross premiums written	3	3,913,526	4,559,124
RITC received from earlier years		1,979,366	0
Outward reinsurance premiums		(653,487)	(1,557,110)
Net earned premiums		5,239,405	3,002,014
Allocated investment return transferred from the non-technical account		36,464	4,838
Claims incurred, net of reinsurance			
Gross claims paid		(1,652,250)	(430,759)
Reinsurers' share		295,778	233,731
Change in provision for claims		(2,691,189)	(2,533,366)
Reinsurers' share		(11,450)	963,736
		(4,059,111)	(1,766,658)
Operating expenses			
Administrative expenses		(295,445)	(204,461)
Exchange adjustment		(13,785)	(1,050)
Personal expenses		(164,950)	(172,250)
Acquisition costs		(742,578)	(862,433)
		(1,216,758)	(1,240,194)
Balance on the technical account for general business		0	0

All the amounts above are in respect of continuing operations.

The notes on pages 10 to 15 form part of these accounts and include details of the basis of preparation in note 1.

Global Capital Underwriting Limited

Profit and Loss Account for the year ended 31 December 1998

Non Technical Account

	Notes	Syndicate	Company	Year ended 31 December 1998 Total	22 July 1996 to 31 December 1997 Total
		£	£	£	£
Balance on the general business technical account			-		-
Investment income		34,464	36,623	71,087	39,898
Allocated investment return transferred to the general business technical account		(34,464)		(34,464)	(4,838)
Other operating expenses	4		(26,123)	(26,123)	(45,119)
Profit (loss) on ordinary activities before tax	5		10,500	10,500	(10,059)
Taxation			-		-
Profit (loss) on ordinary activities after tax			10,500	10,500	(10,059)
Retained profit (losses)	8		10,500	10,500	(10,059)

All income is derived from the continuing activities of the company.

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

No operations were acquired or discontinued during the period.

The notes on pages 10 to 15 form part of these accounts and include details of the basis of preparation in note 1.

Global Capital Underwriting Limited

Balance Sheet - Assets 31 December 1998

		1998	1997
	Notes	£	£
Investments			
Other financial investments	6	820,105	0
Reinsurers' share of technical provisions			
Claims outstanding		952,286	963,736
Debtors			
Debtors arising out of direct insurance operations - intermediaries		1,200,572	1,412,148
Debtors arising out of reinsurance operations		915,811	662,943
Other debtors		1,988,385	89,035
		<u>4,104,768</u>	<u>2,164,126</u>
Other assets			
Cash at bank and in hand - Company	7	500,816	508,555
Cash at bank and in hand - Syndicate		277,445	263,971
		<u>778,261</u>	<u>772,526</u>
Prepayments and accrued income			
Accrued interest		18,337	17,462
Other prepayments and accrued income		196	796
		<u>18,533</u>	<u>18,258</u>
Total assets		<u>6,673,953</u>	<u>3,918,646</u>


The notes on pages 10 to 15 form part of these accounts and include details of the basis of preparation in note 1.

Global Capital Underwriting Limited

Balance Sheet - Liabilities 31 December 1998

		1998	1997
	Notes	£	£
Capital and reserves			
Called up share capital	8	500,000	500,000
Profit and loss account	9	441	(10,059)
Shareholders funds - equity interest	10	<u>500,441</u>	<u>489,941</u>
Technical provisions			
Claims outstanding		5,224,555	2,533,366
Creditors			
Creditors arising out of direct insurance operations		41,491	143,678
Creditors arising out of reinsurance operations		732,187	544,065
Amounts owed to credit institutions		140,784	74,589
Other creditors including taxation and social security	11	20,695	126,207
		<u>935,157</u>	<u>888,539</u>
Accruals and deferred income		13,800	6,800
Total liabilities		<u>6,673,953</u>	<u>3,918,646</u>

These accounts were approved by the Board of Directors on 24 June 1999 and signed on its behalf by:


Henry C V Keeling
Director

The notes on pages 10 to 15 form part of these accounts and include details of the basis of preparation in note 1.

Global Capital Underwriting Limited

Notes to the Accounts

1. Basis of preparation of Financial Statements

a) Basis of presentation

The financial statements have been prepared in accordance with Section 255 of, and Schedule 9A to the Companies Act 1985 ("the Act") and in accordance with applicable Accounting Standards and guidance on accounting by Corporate Capital Vehicles issued by The Institute of Chartered Accountants in England and Wales (ICAEW) in January 1999.

b) Recognition of insurance transactions

Preparing financial statements in accordance with Section 225 of and Schedule 9A to the Act has required the company to recognise its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ("the Syndicate")

The company's proportion of the underwriting transactions, investment return and operating expenses of the Syndicate has been reflected within the company's profit and loss account. Similarly, its proportion of the Syndicate's assets and liabilities has been reflected in its balance sheet. The syndicate assets are held subject to trust deeds for the benefit of the company's insurance creditors.

The proportion referred to above is calculated by reference to the company's participation as a percentage of the Syndicate's total capacity.

The company has delegated sole management and control of its underwriting to the managing agent of the Syndicate ("the Managing Agent") and it has further undertaken not to interfere with the exercise of such management and control. The Managing Agent of the Syndicate is therefore responsible for determining the insurance transactions to be recognised by the company. The only exception to this rule is the level of provision for outstanding claims. These provisions have been determined by the directors of the company (see 2(e) below).

c) Sources of data

The information used to compile the technical account and the balance sheet is based on returns prepared for this purpose by the Managing Agent of the Syndicate ("the Returns"). The format of the Returns has been established by Lloyd's. The Returns have been subject to audit by the syndicate auditors and are based on the audited syndicate returns to Lloyd's and the audited annual reports to syndicate Members. This base data has been adjusted as necessary so that the Returns reflect the differences in preparation between syndicate annual reports and financial statements in accordance with Schedule 9A. The Returns cover the twelve months to 31 December 1998.

d) Cash flows

As permitted by FRS 1 (revised 1996), no separate cashflow statement is presented for the company as the company is a wholly owned subsidiary of XL Capital Limited.

2. Accounting policies

a) Accounting convention

The financial statements are prepared under the historical convention as modified by the revaluation of financial investments

Global Capital Underwriting Limited

Notes to the Accounts

2. Accounting policies (continued)

b) Basis of accounting for underwriting results

All classes of insurance business written are accounted for on a three year funded basis because it is the basis most similar to that followed by the Syndicate. The nature of the information Managing Agents can make available is insufficient for the company to make reliable estimates of the necessary technical provisions on an annual basis of accounting. Under the three year funded basis of accounting followed by the company, the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period ("the underwriting year") is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Consequently, no profit is recognised in respect of an underwriting year until that time at the earliest. Profit is only recognised if a syndicate has been able to effect a "reinsurance to close" (see f) below) in respect of that underwriting year.

If an underwriting year is expected to make a loss, the loss is recognised as soon as it is foreseen by increasing the technical provision to make it sufficient to meet present liabilities and anticipated future claims and expenses.

c) Premiums

Premiums written comprise the total premiums receivable for the whole period of cover provided by the contracts incepting during the financial year, together with any adjustments arising in the year to such premiums receivable in respect of business written in prior years. Premiums are shown gross of commission payable to intermediaries and exclude premium tax.

d) Claims incurred

Claims incurred include the costs of claims handling expenses. Recoverable amounts arising out of subrogation or salvage are deducted from the cost of claims. Claims incurred comprise amounts paid or provided in respect of claims occurring during the year to 31 December 1998.

e) Provision for claims

Provision is made for claims incurred but not paid in respect of events up to 31 December. The provision includes the amounts required to ensure no profit is recognised before the end of the third year under the three year funded basis of accounting (see b) above).

The provision may be increased as appropriate by the company to the extent that deficits are foreseen on underwriting years before the 36 month point is reached. The provision is based on the Returns and reports from the Managing Agents.

f) Reinsurance to close

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's syndicates. Under it, underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year), agree with underwriting members who comprise that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge of, the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that syndicate and allocated to the closed year in consideration of:

Global Capital Underwriting Limited

Notes to the Accounts

2. Accounting policies (continued)

- a) A premium; and
- b) either
 - i. the assignment, or agreement to assign, to the reinsuring members of all of the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitation the right to receive all future premiums, reinsurances and other monies receivable in connection with that insurance business); or
 - ii. an agreement by the reinsured members that the reinsuring members shall collect on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefit so far as they are not applied in discharge of liabilities of the reinsured members.

Where the reinsurance to close is between members on successive years of account of the same syndicate, the managing agents has a duty to ensure both sets of members are treated equitably and to set the reinsurance to close with the intention that neither a profit nor a loss accrues to either group of members.

To the extent that the company participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

g) Investments

Listed and other traded investments are stated at mid-market values. Other investments are stated at director's valuations. Unrealised gains and losses are recognised in the profit and loss account.

h) Investment income

Investment income comprises interest receivable and dividends received plus realised gains on the disposal of investments. Realised gains and losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous valuation.

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 venture nature of participation on a syndicate. The cost of these investments is therefore their market value at each 31 December. The realised gains reported by Syndicates are net of any realised losses.

All investment income, net of realised losses, arising on syndicate participations is allocated to the technical account. Other investment income is attributable to the non-technical account.

i) Investment expenses and charges

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments. Realised losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluation. The realised losses reported by Syndicates are net of any gains.

Global Capital Underwriting Limited

Notes to the Accounts

2. Accounting policies (continued)

j) Net operating expenses

Operating expenses are recognised when incurred. They include the company's share of syndicate operating expenses, the remuneration payable to Managing Agents and the direct costs of membership of Lloyd's. Where they relate to the company's underwriting, they are taken into account in calculating the technical provision required under the three year funded basis of accounting.

k) Other charges

Expenses not attributable to underwriting or investment management are recognised when incurred.

l) Foreign currencies

Transactions in foreign currencies other than sterling, United States dollars and Canadian dollars are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States dollars and Canadian dollars and assets and liabilities in currencies other than sterling are translated at the rate of exchange ruling at the end of the financial year. Exchange differences arising on translation are dealt with in the profit and loss account.

m) Taxation

The company will be taxed on its share of the underwriting results declared by Syndicates and these will be deemed to accrue evenly over the calendar year in which they are declared.

Other profits are assessable to corporation tax in the same period as they are recognised for accounting purposes, after adjustment in accordance with tax legislation.

n) Deferred taxation

Deferred taxation is provided in respect of the tax effect of all timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future, at the rates of tax expected to apply when timing differences reverse.

Global Capital Underwriting Limited

Notes to the accounts

3. Segmental analysis

i) Gross premiums written & gross claims incurred

	Gross premiums Written	Gross premiums Written	Gross claims Incurred	Gross claims Incurred
	1998	1997	1998	1997
	£	£	£	£
Direct Insurance				
Accident & health	1,516	0	(551)	0
Marine, aviation. & Transport	2,948,406	3,474,485	(1,427,835)	(2,559,477)
Fire & damage to property	324,242	246,596	(202,943)	(98,627)
Third party liability	299,264	511,242	(65,162)	(17,183)
Other	80,064	38,326	(16)	0
Total Direct	3,653,492	4,270,649	(1,696,507)	(2,675,242)
Reinsurance business				
Reinsurance acceptances	260,034	288,475	46,731	(288,838)
RITC from earlier years	1,979,366		(2,691,810)	
Total reinsurances	2,239,400	288,475	(2,646,932)	(288,838)
Total	5,892,892	4,559,124	(4,343,439)	(2,964,125)

All gross written premiums in respect of direct and reinsurance business are written in the United Kingdom.

ii) Operating expenses, reinsurance balance and total result

	Operating Expenses	Operating Expenses	Reinsurance Balance	Reinsurance Balances
	1998	1997	1998	1997
	£	£	£	£
Direct insurance				
Accident & health	(391)	0	(283)	0
Marine, aviation & transport	(788,981)	(813,427)	699,327	(435,719)
Fire & damage to property	(84,580)	(57,373)	(6,333)	(24,727)
Third party liability	(81,192)	(118,202)	13,623	(56,297)
Other	(20,139)	(8,973)	4,150	(4,693)
Total direct	(975,283)	(997,975)	710,484	(521,436)
Reinsurance business				
Reinsurance acceptances	(76,525)	(75,506)	(1,792,087)	167,330
RITC to close earlier years			712,444	
Total reinsurances	(76,525)	(75,506)	(1,079,643)	167,330
Total	(1,051,808)	(1,073,481)	(369,159)	(354,106)

Global Capital Underwriting Limited

Notes to the accounts

4. 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.

5. Profit on ordinary activities before tax

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

	1998 £	1997 £
Auditors' remuneration	7,000	7,000
Exchange adjustments	535	1,050

6. Investments

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

7. Cash at bank and in hand - Company

Included within cash at bank is a deposit of £500,000 which forms part of the company's Funds at Lloyd's to support its underwriting. Lloyd's have a fixed and floating charge over this deposit to secure the company's liabilities to policyholders.

8. Called up share capital

	1998	1997
Authorised 500,000 Ordinary shares of £1 each	500,000	500,000
Allotted issued and fully paid 500,000 Ordinary shares of £1 each	500,000	500,000

9. Profit and loss account

	£	£
Balance at 31 December 1997	(10,059)	-
Retained profit / loss	10,500	(10,059)
Balance at 31 December 1998	441	(10,059)

10. Reconciliation of movements in equity shareholders' funds

Shareholders' funds brought forward	489,941	-
Shares issue	-	500,000
Revenue profit (loss) for the period	10,500	(10,059)
Shareholders' funds at 31 December	500,441	489,941

Global Capital Underwriting Limited

Notes to the accounts

11. Other creditors including taxation and social security

	1998	1997
Amount due to intermediate holding company	18,712	36,076
Other creditors	1,983	90,131
	<u>20,695</u>	<u>126,207</u>

12. Ultimate holding company

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

13. Related party transactions

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