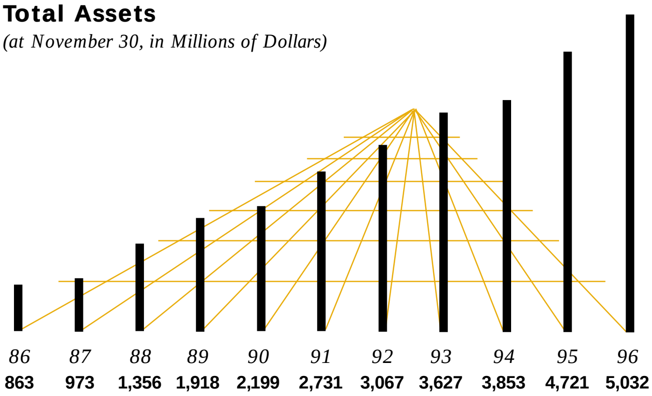
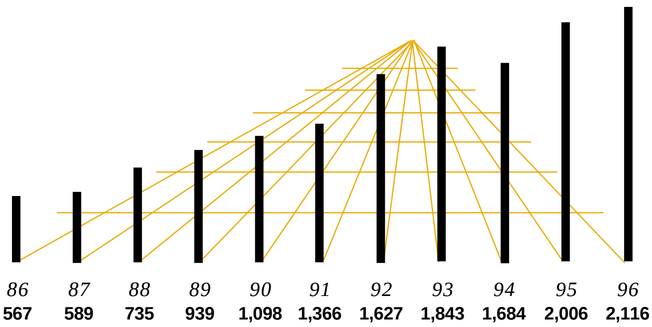
Financial Highlights

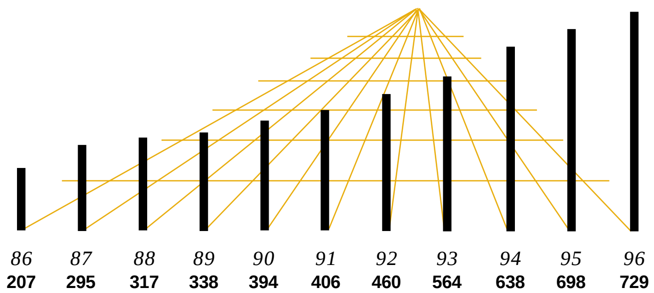
Total Assets
(at November 30, in Millions of Dollars)



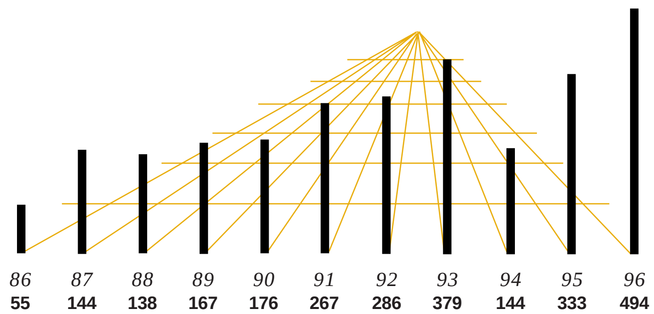
Shareholders' Equity
(at November 30, in Millions of Dollars)



Gross Premiums Written
(at November 30, in Millions of Dollars)



Net Income
(at November 30, in Millions of Dollars)



Contents

Bridging the Gap

BRIDGES SPAN TIME AND SPACE, surmount obstacles, give access to the previously inaccessible and strengthen ties across natural divides. Bridges are key to successful alliances, helping individuals, businesses, states and countries transfer and share vital commodities. Relying upon firm foundations and structural strength for efficient performance, bridges provide innovative ways of getting from where you are to where you want to be. They stand as monuments to architectural vision and challenging feats of engineering.

IN 1986, the Company was incorporated to **"bridge the gap"** that existed between supply and demand for excess liability insurance. Throughout the intervening decade the Company has continued to bridge gaps in insurance needs with innovative new products and services. Today's insurance companies require firm foundations, structural strength, the guiding hands of experts, the knowledge to respond to challenges, and the visionary zeal to welcome the opportunities that lie ahead. Throughout this year's annual report, bridges aptly illustrate these our corporate strengths.

SOMERSET BRIDGE, reputed to be the smallest drawbridge in the world, with an opening of only 22" to allow the masts of sailboats to pass through, links the waters of the Great Sound with Ely's Harbour in Bermuda.

Report to Shareholders

The Company concluded its first decade of operations on a high note, with all key financial measures at record levels. Gross premiums written climbed to $729 million, net income increased to $494 million and total assets exceeded $5 billion for the first time. Return on shareholders' equity was a gratifying 24 percent, reflecting the results of our commitment to manage our capital for superior returns.

When our organization was formed ten years ago, its purpose was to bridge the liability insurance gap for large buyers. Hence the theme **"Bridging the Gap"** outlined on the preceding page. Bridges also symbolize many of EXEL's tenets, including responding to a need, assumption of risk, protection, access and efficiency of operation.

Pursuing this theme, the Company has continuously expanded and developed new products and services in order to meet policyholders needs and provide its shareholders superior returns. Some of the key milestones of the decade are reflected in the chronological line running throughout the Operations Report.

1996 was a year of significant accomplishment. We implemented many of the strategic objectives which we had identified a year ago to maintain the Company's leadership position in the markets it serves. Our primary focus is to build our broker-oriented core customer franchise – the largest and most sophisticated buyers of insurance – by responding to their needs with products and services that provide solutions to their risk management requirements.

Convergence

Strategic partnering is an area where significant new capabilities have been developed over the last year. The Company acquired 30 percent of Pareto Partners, an investment management firm based in London and New York. Pareto brings skills in currency management, asset allocation and sophisticated modelling techniques to our business at a time when the disciplines of the finance and investment markets are converging with the more traditional insurance business.

In keeping with our goal of providing answers for our larger clients, *XL Risk Solutions* is part of a coordinated initiative with CIGNA Property and Casualty. By working together with common customers, this facility is able to offer up to $1 billion of multi-line coverage over a 5-year period to insureds seeking seamless protection for their income statements and balance sheets.

We remain committed to the Bermuda market and to Bermuda as the preferred domicile for our business. We have strengthened our professional capabilities over the past year, adding expertise in the underwriting, finance, investment and legal disciplines.

Capital

Insurance markets worldwide have become increasingly competitive over the past year. Capital is still entering the business and many companies – including EXEL – have more capital than they need to support the level of business. Rather than return capital to the sources that provided it, some organizations have sought to gain market share by offering coverage at terms that, in my view, are unsustainable and likely to leave their investors with returns significantly below expected levels.

Reinsurers also have become a source of inexpensive capital for many primary markets, which in turn have expanded their limits through the use of this readily available capacity. One of EXEL's abiding strengths is that it is not dependent on reinsurance for delivery of its product, although reinsurance is an increasing part of the capacity and security the Company offers its insureds.

Settlement of claims is one of our major capabilities and insureds have come to rely on the Company to lead in this area. Customer surveys continue to rank our key subsidiary, X.L. Insurance Company, Ltd. (X.L.), as outstanding in its handling of claims – a key factor when dealing with the coverage limits – now averaging more than $80 million per insured – which the Company offers.

Capital Management

During 1996, the Company continued its program of capital management and repurchased more than 8 million of its shares. Although our markets are increasingly competitive, it is clear that the Company has more capital than it currently needs to employ in its existing business. Our share repurchase strategy thus provides the Company with an alternative that augments per share earnings and improves return on equity. Early in 1997, we were pleased that Standard & Poor's increased our claims paying rating to AA, another reflection of our strong capital position.

The Board of Directors recognizes the value of a dependable dividend policy for shareholders. In keeping with our policy to pay out up to 40 percent of the Company's operating earnings, the Board raised the quarterly dividend in April to $0.25 per share, representing an annual increase of 25 percent. A one-for-one stock dividend was declared in July, effectively doubling the number of shares outstanding and creating a larger and therefore more liquid share base. In January 1997, the Board again increased the quarterly dividend by a further $0.07 per share, or 28 percent, to $0.32 per share, reflecting this year's strong results.

Consolidation

As the Company enters its second decade of operation, it is clear that significant structural changes are well underway in the insurance industry. We view these changes as an avenue of opportunities for EXEL. Given our low cost structure, favorable tax status and the benign regulatory environment, EXEL has considerable competitive advantages over others who would offer solutions in this market.

Recent events have underscored the consolidation occurring in the industry. Several companies, once considered market leaders, have been absorbed into other organizations and have virtually disappeared. During the year, X.L. acquired the rights to renew the business of the American Excess Insurance Association (AEIA), one of its original competitors. Our transportation insurance portfolio was augmented through the purchase of Railroad Association Insurance Limited (RAIL) in the fourth quarter. These two transactions have added revenue to our core general liability business.

Ian R. Heap
Ellen E. Thrower
Robert S. Parker
John Loudon
Gilbert Gould
Cyril Rance
John T. Thornton

John Weiser
Michael P. Esposito, Jr.
Alan Z. Senter
Brian M. O'Hara
Robert Clements

Directors of EXEL Limited and X.L. Insurance Company, Ltd.

The number of major brokers continues to shrink as combinations of formerly key competitors occur increasingly. As distribution mechanisms become more concentrated, there will be new pressures on insurers to recognize that a new standard of business sourcing has evolved. Companies that wish to be part of the new paradigm will have to recognize and respond to changes. We support the efforts of our broker trading partners to bring efficiency, including new products and electronic distributions, to our mutual customers. EXEL intends to meet this challenge.

Concentration

Many insurance lines have become commodities in areas where the company offering the lowest price is the most likely to get the business. This approach can succeed in sectors, such as automobile insurance, where the per risk unit is relatively small and reasonably predictable. Where the risks are considerably larger and more complex, companies which undertake to compete on price alone can well become victims of their own success.

The characteristics of large risks – low frequency and high severity – vary enormously by industry and a broad spread of risk is essential for long-term survival. After ten years of operations, concentrating on a limited number of insurance products, X.L. has the broadest spread of risk in the classes it writes and has generated the by-industry data required for success. This is the result of a disciplined approach to underwriting which has been rigorously adhered to over that period. The Company does not intend to abandon it now because a few organizations are willing to become loss leaders to buy into this area of the market.

Cycles

This industry has a long history of cycles and downward spirals. Many in it seem to have short memories, hence the current appetite of some to write business at low prices on uneconomic terms. While we do not believe the recently popular reasoning that cycles will disappear – I recognize that their character has changed. Individual markets move at different paces now and are influenced by unique events which may not impact other sectors. It is unlikely that we will see a sweeping sea change, as we did in the mid 1980s, where all parts of the market moved together. Cycles will be more driven by sector than by line and across the board underwriting discipline will only return to the industry following an unforseen cataclysmic event in the insurance and/or financial market.

Churning or constant shopping for price alone is less likely to occur where the buyer understands the true financial impact of risk management, measured over a span of years, using financial benchmarks. Risk managers are more involved than ever in financial decision making, and insurance – ever more broadly defined – has become a significant weapon in the CFO’s arsenal for the successful delivery of earnings and balance sheet protection. We have focused on developing our skills to match this trend and have held a number of focus group sessions in Bermuda to work more closely with our brokers and customers to deliver products and services that respond to their more sophisticated needs.

Technology

Technology in the industry continues to change at a rapid pace with new distribution methodology at the forefront. Electronic placement of even large risks is expected to become the norm over the next several years and some larger broker/intermediaries are developing networks to deliver business electronically. X.L. is working with them and intends to be ready when they are. Our early work on electronic communications and distribution has given us clear advantages. Our size and ability to move quickly at relatively low cost will also benefit the Company in a rapidly changing future.

Outlook

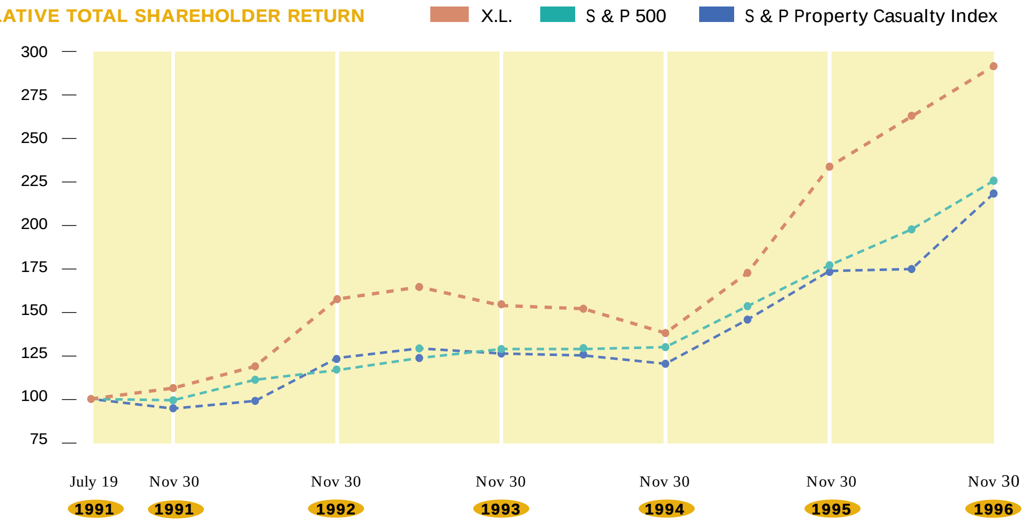
We believe those companies with large unencumbered capital will be successful in the large risk insurance business. EXEL responds to customer needs and is committed to managing its resources to provide the capital needed to deliver consistent returns on equity. To fulfill this promise, we have built the strongest underwriting teams in our core lines of business.

Our brokers and customers are essential to our success. Many attended our tenth anniversary celebration and other events during the the past year. We pride ourselves on our face-to-face contact with our clients and on our use of such opportunities to build relationships with these key groups.

I would like to thank our dedicated staff for another year of superior effort and the contribution of our directors, especially our chairman, Mike Esposito, for our continuing success. Our organization is focused on the future, being at the forefront of an industry destined to change, providing solutions matched to our customer risk management needs and thereby earning superior shareholder returns.

BRIAN M. O'HARA
President & Chief Executive Officer

CUMULATIVE TOTAL SHAREHOLDER RETURN



Operations Report

This Report should be read in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition and the Consolidated Financial Statements and the Notes thereto which are presented on pages 42 through 54 of this Annual Report.

Financial Highlights

Net income increased in 1996 to $494 million, or $5.39 per share, from $333 million, or $3.22 per share, in 1995. (All per share amounts have been adjusted/restated to reflect the one for one stock dividend paid in July 1996.)

Excluding realized investment gains and losses, operating income was $288 million, or $3.14 per share, increasing 15 percent on a per share basis from 1994, when operating income was $283 million, or $2.74 per share.

Realized investment gains added a record $206 million, $2.25 per share, in 1996, compared with $50 million, or $0.48 per share, during 1995.

Revenues grew to a record $982 million, compared with $859 million last year, a 14 percent increase.

Gross premiums written increased to $729 million in 1996 from $698 million a year ago. After adjusting for the effect of multi-year premiums, gross annual premiums were $590 million, compared with $589 million in 1995.

Net earned premiums in 1996 were $518 million, a decrease of 7 percent from $558 million a year ago. The decrease reflects the impact of the placement of a new quota share reinsurance treaty protecting the general liability book of business. If this treaty had not been in effect, earned premiums would have increased by 4 percent. The Company believes that the change in net premiums earned is the most appropriate way to measure overall business conditions as it reflects the annual impact of multi-year premiums as they are earned by the Company.

An important measure of our success is the renewal retention ratio. This ratio was flat at 87% percent for the entire book in 1996. If this ratio is adjusted for the impact of insureds acquired by or merged with other companies which are insureds, the ratio was 88%, a remarkable accomplishment in a market which has become increasingly competitive.

The combined ratio in 1996 was 93.6 percent, compared with 94.0 percent in 1995. The loss and loss adjustment expense ratio was 78.3 percent in 1996, versus 79.0 percent in 1995, and the underwriting expense ratios were 15.3 percent and 15.0 percent, in the respective periods. These ratios are a key measure of underwriting success, where a combined ratio of under 100 percent indicates a profit. The Company aims to price its products for an underwriting profit, declining to offer coverage in those situations where its underwriters feel that an underwriting profit is not attainable. Since its formation, the Company has reported an underwriting profit in each fiscal year.

Total assets rose to $5.0 billion at November 30, 1996, up 7 percent from $4.7 billion a year ago. Shareholders' equity was $2.1 billion at year-end, versus $2.0 bil-

BRIDGES strengthen ties ACROSS natural

appointed • Gross Premiums exceed $206 million **1987** *Barbados/Bermuda officers announced • In-house underwriting expertise* lion at the end of 1995. Fully diluted book value per share rose to $24.21 from $21.11 on November 30 a year ago. New cash flow and a strong bond market aided this improvement, more than offsetting the repurchase of 8 million shares during 1996 – an expenditure of $282 million. Share repurchase is an important part of our strategy to manage the Company's capital for total return. Since the inception of the repurchase program in 1994, the Company has repurchased 24.2 million of it shares, or more than 20 percent of the shares outstanding before the program was initiated, at a cost of $688 million.

General Liability

Gross premiums written in general liability totalled $432 million in 1996, compared with $447 million in 1995. The market for general liability insurance has become increasingly competitive over the last two years. Competitive pressure has come from the domestic U.S. and international markets with both coverage terms and pricing being impacted. Additionally, the Company has moved to higher attachment points, resulting in lower premiums, but also reducing the level of risk.

Comparisons of gross premiums written vary from year to year as a result of the impact of multi-year premiums, which are required to be booked in full at inception, resulting in an apparent overstatement of annual premium volume. After adjustment for the multi-year premium impact, which was $58 million in 1996 and $19 million in 1995, annual gross premiums written were $374 million in 1996 and $428 million in 1995.

New business submissions were elusive in 1995 as onshore competitors increased their efforts to keep the business from being shown to this market. Unreasonably low prices and liberal policy conditions being offered by other markets make it unattractive – and unprofitable – to "chase" this business.

Nevertheless, the Company's adjusted general liability renewal retention ratio of 90 percent is a reflection of the strength of its franchise.

EXEL MEETING THE NEEDS OF LARGE BUYERS OF EXCESS LIABILITY INSURANCE.

The average limit written in general liability remained flat at $80 million, while the average attachment point moved up to $79 million from $73 million. The shift in attachment point had the effect of lowering the exposure relativity of this book of business to nearly 1.00 from 1.10 in 1995. Exposure relativity is a

divides MONUMENTS to vision

measure of the Company's relative exposure to loss. It is measured as the ratio of average policy limit exposed to average loss attachment point. A higher attachment point generally means a lower risk of loss frequency. In the current soft underwriting environment, the Company has been willing to move its attachment point up, further

BRIDGES carefully **structured** TO WITHSTAND the

EXEL FOCUSING ON INNOVATIVE SOLUTIONS FOR A RAPIDLY CHANGING MARKETPLACE.

duced • XL adopts formalized Mission Statement stressing the Company's strengths: Capacity, Stability, Risk Absorption and Financial reducing the frequency of loss. It is generally felt that the risk profile of the general liability book has improved as a result of the shift in attachment point.

Multi-year programs continue an important part of our strategy to attract and retain long-term customers. Our MAXL policies now total approximately 20 percent of the general liability premium base. These programs are flexible and reflect the innovative approaches X.L. utilizes to meet the needs of its core clients while employing strategies aimed at keeping customers for an extended period.

Professional Liability (Errors & Omissions)

Professional liability (E&O) gross premiums written in 1996 were $57 million compared with $54 million in 1995. Annual premiums, after adjusting for the impact of multi-year contracts, were $52 million in 1996 versus $53 million a year ago.

The average limit point for E&O decreased modestly from $32 million to $30 million while the average attachment point increased from $64 million to $70 million.

The largest segment of this business is represented by wrongful acts coverage for lawyers and other professional services firms, including insurance brokers. Although this line has become increasingly competitive during the past year, new business opportunities offset most of the decline in premiums in the traditional book.

Directors & Officers Liability

Directors and officers liability (D&O) is the Company's most competitive line of business, but selective underwriting has enabled X.L. to maintain acceptable underwriting profit. Gross written premiums in 1996 increased to $28 million from $25 million a year ago, boosted by multi-year accounts produced during the year. After adjusting for the impact of multi-year premiums, annual gross premiums written were $23 million compared with $25 million, reflecting the competitive pressure on this business.

The average attachment point for D&O was $46 million compared with $50 million in 1995. The average limit was $16 million, down slightly from $19 million a

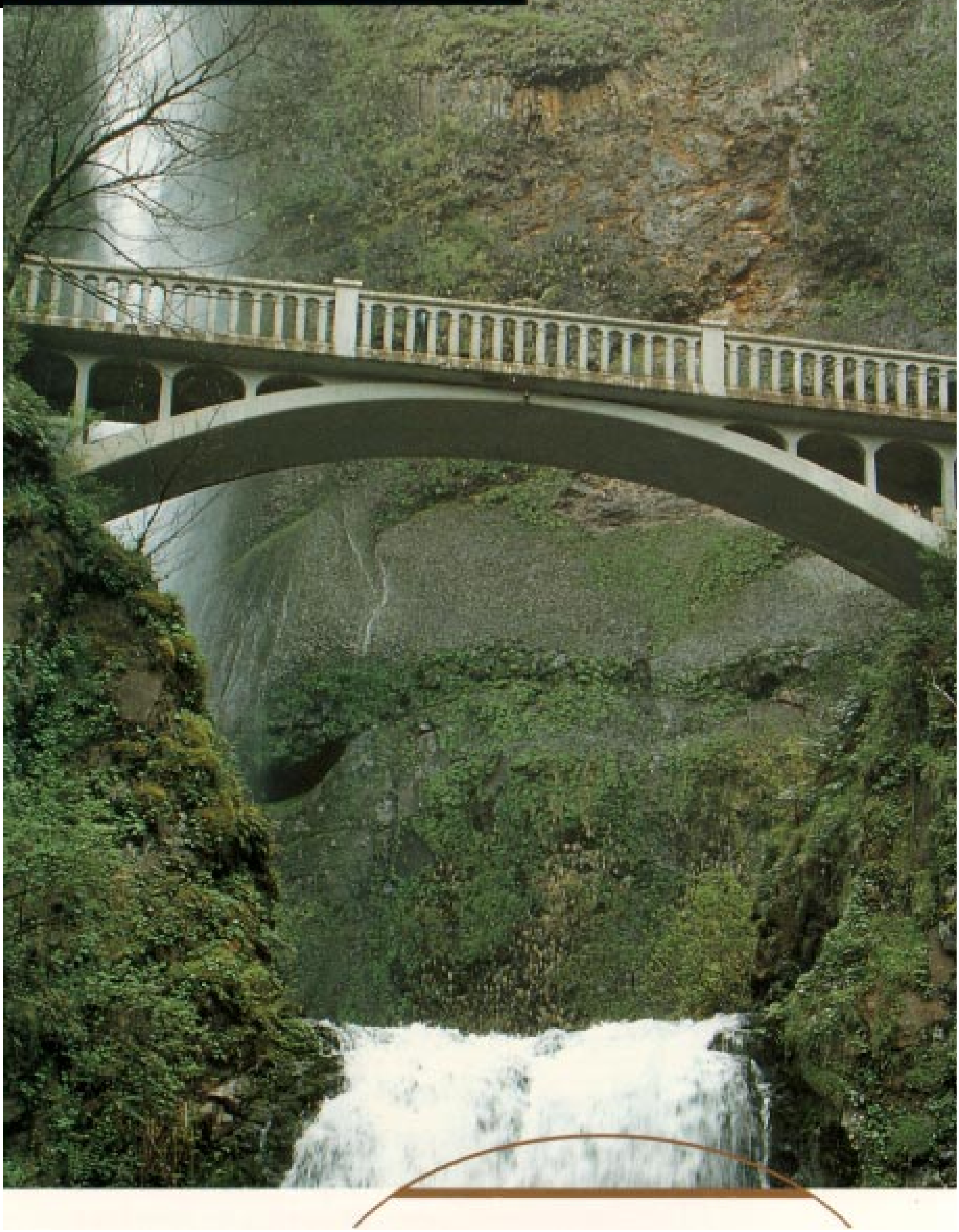
ever-changing pressures of progress

year ago. X.L. has made inroads during the past year to recognize the coverage needs of its customers at appropriate prices and terms.

Employment Practices Liability

In April 1996, the Company introduced the industry's first standalone employment-practices liability (EPL) insurance program, offering limits of up to $100 million in excess of $1 million. EPL offers companies insurance protection for discriminatory acts relating to their employees.

Although many organizations had not budgeted for the purchase of this new coverage, the need for this product was brought to the fore late in the year with several well publicized cases raising the profile of employee discrimination law suits. This emerging area of litigation is receiving increased attention from the plaintiffs bar. By the end of 1996, X.L. had written $3 million of gross premiums in EPL, with a



BRIDGES providing vital access THROUGH skilled ENGIN

Head Office moves to Bermuda domicile • Board of Directors reduced from seventy-three to nineteen • XL Europe opens in Dublin growing number of applications for this coverage under consideration.

Property

The Company's relatively new property line continued its strong growth in 1996, with gross premiums written more than doubling to $41 million from $18 million in 1995.

Following the introduction of *XL Risk Solutions*, many insureds elected initially to purchase mono-line property programs as a preliminary step toward a broader multi-line approach.

The average attachment point for property risks was $197 million in 1996, up from $173 million in 1995, reflecting the conservative approach to writing this class in a challenging market. Aggregate exposures are managed worldwide using sophisticated modelling techniques to minimize the Company's exposure to catastrophic loss.

XL Risk Solutions

In response to customer requests for a more efficient and streamlined risk transfer process, the Company undertook a coordinated initiative with CIGNA Property and Casualty in early 1996 to provide a wide array of services and seamless risk transfer. This initiative combines the best of both organizations, offering global servicing and the largest net multi-line capacity available in the world.

EXEL STRATEGICALLY POSITIONED TO TAKE ADVANTAGE OF THE STRUCTURAL CHANGES IN THE INSURANCE INDUSTRY.

The coordinated programs, which are underwritten in Bermuda, are flexible, based on customer needs, typically multi-line, multi-year and non-cancelable. They combine traditional and non-traditional risk transfer mechanisms. Options have included earnings protection components in addition to the streamlined risk transfer capabilities. Policy administration and reporting requirements are substantially reduced, enabling risk management departments to focus resources on broader, value-added activities.

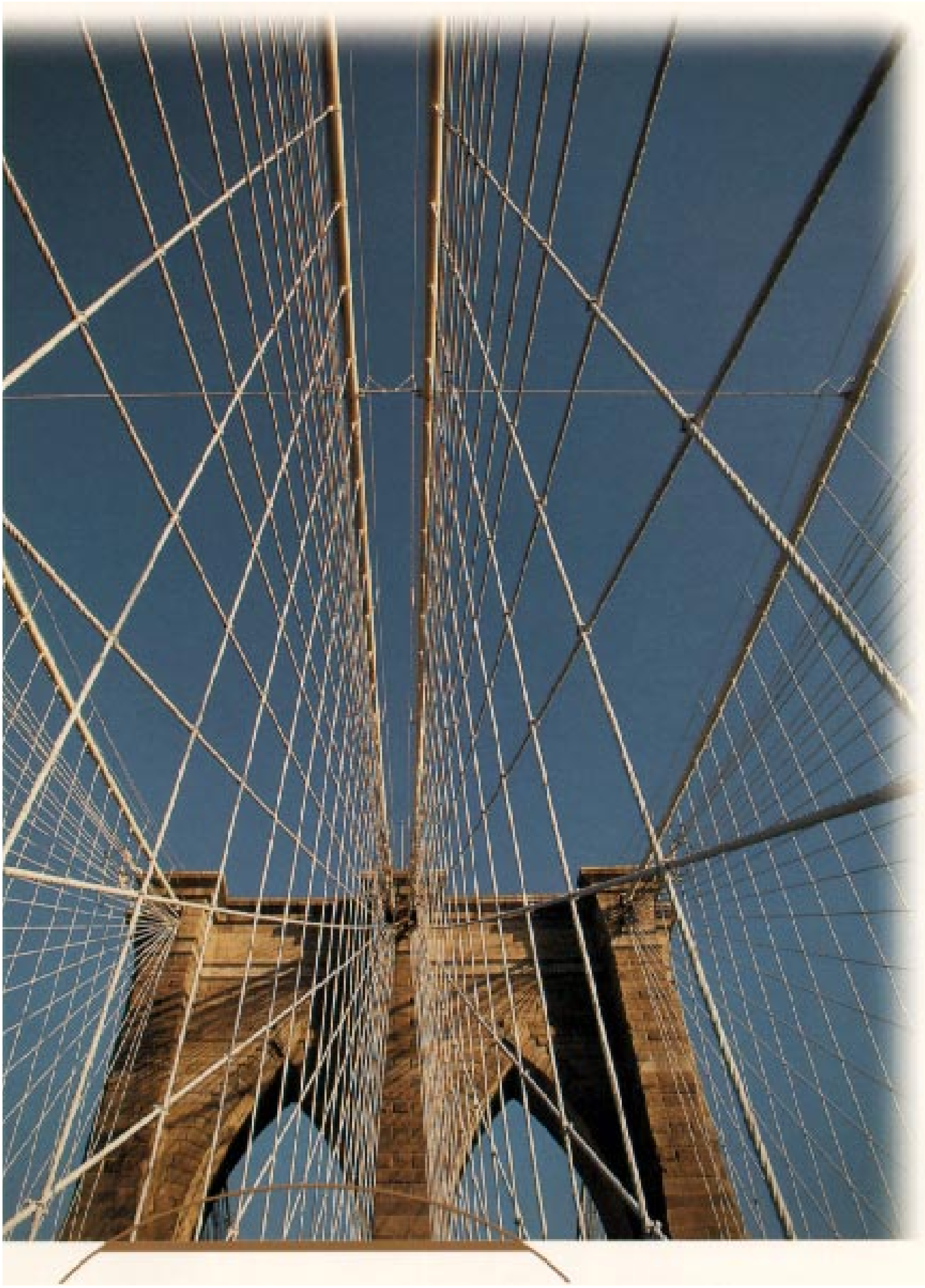
The number of customers from both organizations with a strong interest in this initiative continues to exceed our expectations. The Company believes that this leading edge approach will become the product of choice for a wide range of customers in the future. Gross premiums written in 1996 for *XL Risk Solutions* were $24.8 million.

Specialty Reinsurance Assumed

Gross premiums written in 1996 were $145 million, compared with $154 million in 1995, with the majority of

EERING and strategic positioning

contracts being on a multi-year basis. After adjustment for the impact of the multi-year premiums, annual gross premiums written – considered a better measure of true production for this business – in 1996 were $103 million, versus $62 million in 1995, an increase of more than 58 percent.



BRIDGES channels of COMMUNICATION, essential

@ $32.50 • *Invested $100 million in new company – Mid Ocean Re* • *MAXL product launch* **1993** *Property Capacity* • $70

X.L. Reinsurance Company, Limited (XL Re) which was established on December 1, 1995, provides large net line capacity to insurance and reinsurance companies. Although each contract written is tailored to the individual risks assumed, XL Re can provide on either an excess of loss of quota share basis, limits up to $100 million per claim or occurrence. Each contract is underwritten utilizing actuarial models to develop expected outcomes and the amount of capital necessary to support each transaction. Financial reinsurance and finite programs are also considered by XL Re on an individual basis, but to date the Company has adopted a conservative approach to such programs.

XL Re opened a contact office in London in late 1996 in order to capitalize on the opportunities emanating from that market. The London reinsurance market has been revitalized, largely due to the influx of new capital into Lloyd's, and this office provides an opportunity to participate in this key market.

European Operations

X.L. Europe Insurance (XLE) contributed $92 million in gross premiums written in 1995, down 9 percent from $102 million in 1995. After adjustment for the impact of multi-year premiums, XLE had gross premiums written of $79 million in 1996 compared with $92 million a year ago.

The declines in this region primarily reflect the loss of two major accounts to the continental European market and the increase in competition from key markets, notably in the UK. However, the Company has taken steps to improve the retention of business in Europe, including developing foreign language capabilities such as policy wordings and multi-lingual underwriting staff.

XLE obtained a surplus lines license to operate in certain states of the U.S. in the latter part of 1996. At the present time, the Company has no intention of utilizing this license to directly write business in the U.S. However, it does offer the Company the potential for new business options and greater flexibility at a time when traditional distribution methods are facing competitive challenges.

A contact office was established by XLE in Sydney, Australia, in a coordinated move with Pareto Partners, to develop business in Australia and the Asia-Pacific region. This office will be fully staffed in 1997 to capitalize on opportunities resulting from the ongoing development of this region.

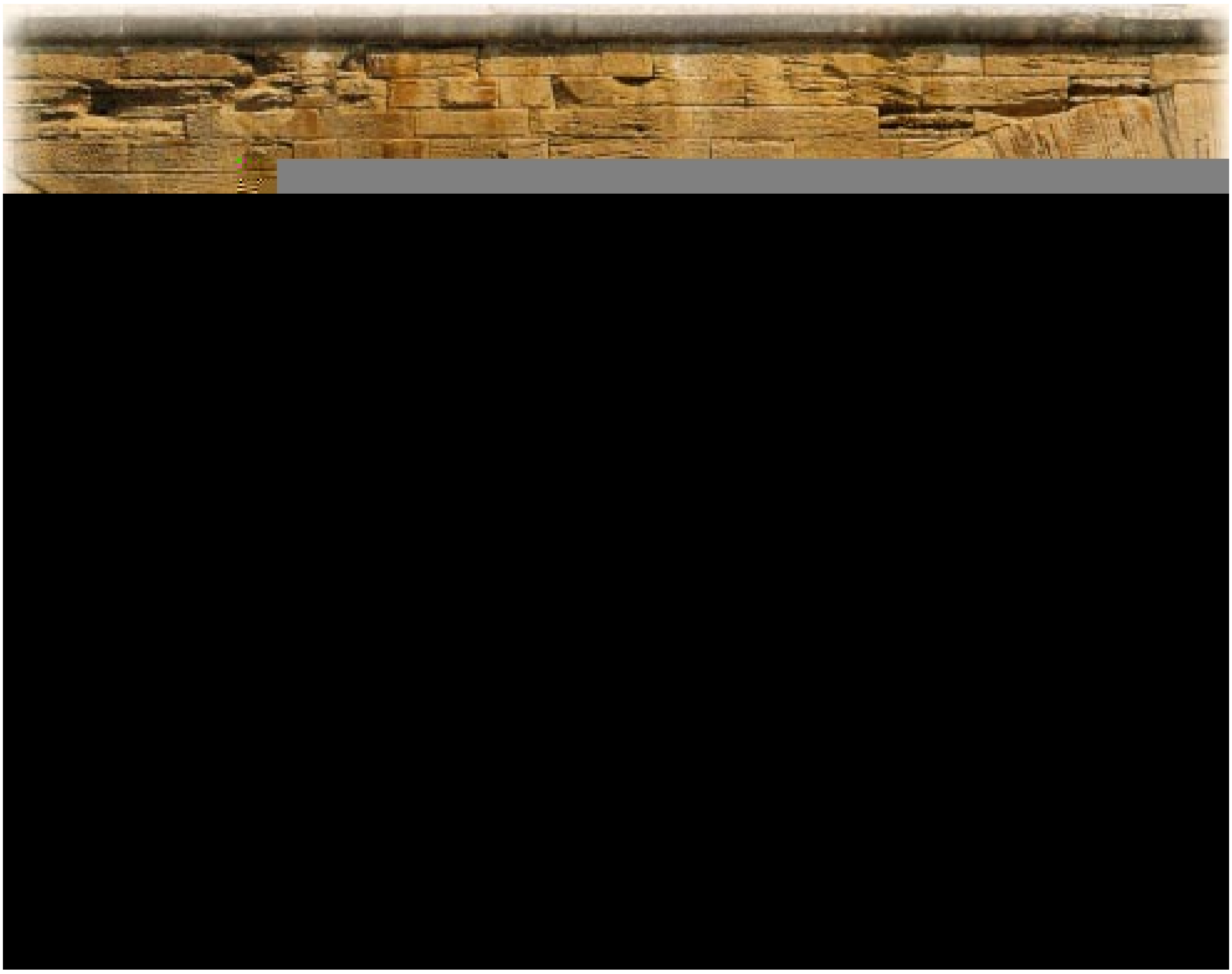
Claims

The Company paid $300 million in claims and added $324 million of new case reserves in 1996, compared

EXEL CREATING NEW OPPORTUNITIES AND EXPANDING PRODUCT LINES FOR FUTURE GROWTH

LINKS TO economic growth

million invested in Mid Ocean Re IPO • Annual GWP tops the $500 million mark **1994** *Brian O'Hara becomes the Company's*



BRIDGES span time AND space ... HISTORIC

EXEL WORKING
TOGETHER WITH
BROKERS, CLIENTS
AND STRATEGIC
PARTNERS TO
PROVIDE ENDURING
RELATIONSHIPS

new CEO **1995** *$70 million invested in Risk Capital Re • XL Re Capitalized at $250 million • XL receives A.M. Best's Rating*

conference in Toronto in 1996. The Company had a booth which was visited by hundreds of the organization's clients and numerous potential customers. Major emphasis was placed on product promotion.

Insurance brokers are the key to accessing the business that X.L. writes. During the year, marketing staff initiated a series of meetings with the Company's major producers and held a number of focus groups aimed at gaining a better understanding of our mutual constituents.

Electronic broking has moved to the forefront as a very real way to deliver business. The Company has been actively involved in the development of new delivery systems which are expected to be introduced in the near future.

Cross selling, or selling more than one product to a single customer, is a key objective of the Company's marketing efforts to increase X.L.'s share of its current customers' business.

Management Information Systems

The Company continues to move into an improved business operating environment, building on its corporate database. EXEL has been at the forefront of developing a document processing system in order to provide underwriters with the desktop capabilities they need for decision making.

As the Company expands, it faces new challenges meeting the communications and systems needs of a broader geographical spread of personnel. During 1996, the Company put in place a full business contingency plan in the event of a disaster.

EXEL STRIVES TO OUTPERFORM THROUGH INNOVATION IN UNDERWRITING, CLAIMS SERVICE AND INVESTMENTS.

Investments

In 1996, net investment income, primarily from interest and dividends, was $199 million, compared with $200 million in 1995. Realized investment gains in 1996 totalled $206 million, compared with $50 million in 1995, reflecting a significantly higher level of gains taken in 1996 compared with a year ago.

Total invested assets increased to $3.8 billion at the end of 1996, compared with $3.4 billion at November 30, 1995.

In the latter part of the year a new chief investment officer was appointed, with the goal of increasing the risk profile of the portfolio and improving the overall performance of the Company's invested assets.

purpose AND innovative design

• *X.L. Indications moves the Company into Electronic Broking* **1997** *S&P upgrades X.L.'s rating to "AA"*

X.L. Products

DESCRIPTION	KEY FEATURES	BUSINESS MIX

General Liability

Description

- Coverage is provided to industrial, commercial and other enterprises on a worldwide basis for third party liability losses arising from events or conditions resulting in unexpected and unintended personal injury and/or property damage.
- Coverage includes product liability, sudden pollution (discovered within 7 days), punitive damages and payment of legal fees, for catastrophic events.
- Individual and integrated occurrences subject to a single limit.
- Limits available up to a maximum of $150 million in excess of a minimum of $25 million ($15 million for non-U.S. risks).

MAXL

- Programs are also available offering loss-sensitive and finite risk techniques combined with traditional guaranteed cost elements on a multi-year basis.

COAXL

- Contracts with more restrictive coverage are also available, with limits of not less than $10 million, for mid-size enterprises.

Key Features

- Coverage provided for occurrences after January 1, 1986 reported during the policy period.
- Well-defined loss notice/discovery conditions.
- Policy generally can drop down upon expiration/exhaustion of underlying coverages to a $25 million ($15 million for non-U.S. risks) minimum attachment.
- Coverage disputes settled by London arbitration.
- Perpetual policies with annual aggregate limit.
- Multi-year coverage available.

MAXL

- Alternative rating/multi-year coverage commitment, regardless of adverse development on existing future claims.
- Customized programs designed to increase the level of risk sharing.
- Offers opportunity to expand coverage.
- Single limit for multi-year period available.

Oil & Gas	17%
Chemical	16%
Industrial	15%
Pharmaceutical	14%
Other	10%
Rail	7%
Property	6%
Consumer	5%
Auto	4%
Utilities	4%
Construction	2%

Specialty Reinsurance Assumed

Description

- Provides specialized large net line capacity to insurance/reinsurance companies, including captives, with contracts tailored to the individual risks assumed.
- Coverage generally available on either an excess of loss or quota share basis.
- Third party liability coverage up to $100 million per occurrence.
- Other exposures or lines of business considered on a case by case basis.
- Minimum premium usually $1,000,000.

Key Features

- Separately capitalized Company with $250 million of paid-in surplus.
- Contracts available on a guaranteed cost basis, loss sensitive rating approach or a combination of both, often referred to as concentric risk, and may include credit protection in appropriate layers.
- Flexibility. Each contract negotiated individually.
- Multi-line coverages available.
- Multi-year relationships.
- Large net capacity.

Marine	37%
Professional Liability	25%
Property Reinsurance	22%
Property Special	16%

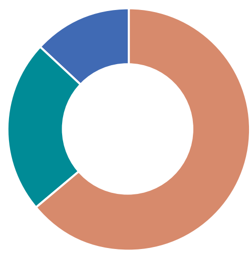
X.L. Risk Solutions

Description

- X.L. *Risk Solutions* is a process, a coordinated initiative between CIGNA and X.L. to meet customer risk transfer needs.
- The process is accomplished by packaging coverages, consolidating limits, establishing experience-rated layers, providing basket aggregate retention protection and/or developing coverages for hard-to-insure risks.
- Innovative techniques and combinations of traditional approaches to risk management.
- Multi-line, multi-year insurance program jointly developed with the customer to meet specific risk transfer needs unique to their business.
- Operates as a partnership based on common interests and a long-term commitment.
- Minimum annual premium Primary – $3 million (excluding Workers Compensation) Excess – $1 million.

Key Features

- Account versus mono-line underwriting.
- Flexibility (primary, quota share or excess); optional experience rated or finite layers.
- Large, stable net capacity ($200 million per occurrence).
- Reduced costs (if combined limits, multi-year).
- Coverage for hard-to-insure risks.
- Global capability (risk transfer and service).
- Simplified structure (fewer markets).



Chemical	64%
Industrial/Medical	23%
Construction	13%

X.L. was formed to create and maintain significant capacity for the classes of insurance written; to provide stability of price and coverage for such classes; to write, or invest in entities writing, other classes of insurance or reinsurance; to absorb risk while maintaining a profitable profile; and to ensure the long-term financial security of the Company.

DESCRIPTION | KEY FEATURES | BUSINESS MIX

Professional Liability

Description

E&O

- Policy covers wrongful acts and resultant punitive damages for certain classes of professionals, including law firms, accounting firms, insurance companies and insurance brokers.
- Coverage offered up to a maximum of $50 million in excess of a minimum of $25 million.
- Multi-year and alternative rating methodology available.

D&O

- Coverage available up to a maximum of $50 million for individual director indemnification.
- Corporate reimbursement is currently offered up to a maximum of $25 million in excess of not less than $20 million ($15 million in excess of $15 million on non-U.S. risks).

Key Features

E&O

- London arbitration.
- Stand alone claims made and reported policy form: a following form policy is available for all classes of business.
- No matching limit requirement, except for architects and engineers.
- Punitive damages covered.
- Drop down and prior acts options available.

D&O

- Coverage on a claims made and reported basis for a designated period.
- Policy generally adapts the terms, conditions and exclusions of underlying/primary coverage.
- Coverage can 'drop down' upon erosion/exhaustion of underlying aggregates.
- Alternative rating methodology available.
- No excluded class of business.
- Full prior acts coverage.

Business Mix

Lawyers E&O	31%
Miscellaneous E&O	15%
Insurance Brokers E&O	14%
Miscellaneous D&O	10%
Insurance Companies E&O	9%
Industry Manufacturing D&O	8%
Financial Institutions D&O	7%
Utilities D&O	3%
Chemical/Pharmaceutical D&O	3%

Employment Practices Liability

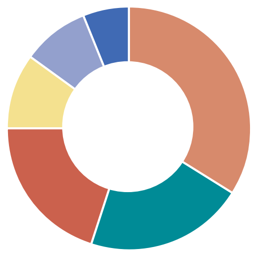
Description

- The world's first single, stand-alone insurance program offering employers $100 million in protection against the cost of claims resulting from employee law-suits.
- Coverage is designed principally to protect employers from catastrophe level claims resulting from class action and large individual lawsuits.
- Coverage applies excess of a minimum $1 million retention.

Key Features

- Broad worldwide coverage for liability arising from employee lawsuits, including class action, alleging: job discrimination, sexual harassment, wrongful dismissal, invasion of privacy, retaliation against employees, failure to provide equal opportunity, and defamation arising out of the foregoing.
- Broad definition of loss amount which includes punitive, exemplary, multiplied and other damages.
- Contract allows clients to retain control of claims defence.
- Coverage for claims made anywhere in the world without regard to where the claim occurred.
- London Arbitration.

Business Mix



Financial Services	34%
Oil & Gas	21%
Retail	20%
Industrial	10%
Utility	9%
Auto	6%

Property

Description

- Excess property coverage available for large commercial and industrial accounts on a global basis.
- Basic capacity is $100 million, plus $10 million for California and Japan earth-quake.
- Minimum attachment point is $50 million, except: $100 million for oil and petro-chemical accounts, $10 million for Builder's Risk (CAR), and 5% total insured value for California and Japan earthquake.
- Options available are: Named Peril, All Risks, Boiler & Machinery, Earthquake (stand alone), Flood on a standard form or follow form subject to review and minimum premiums.

Key Features

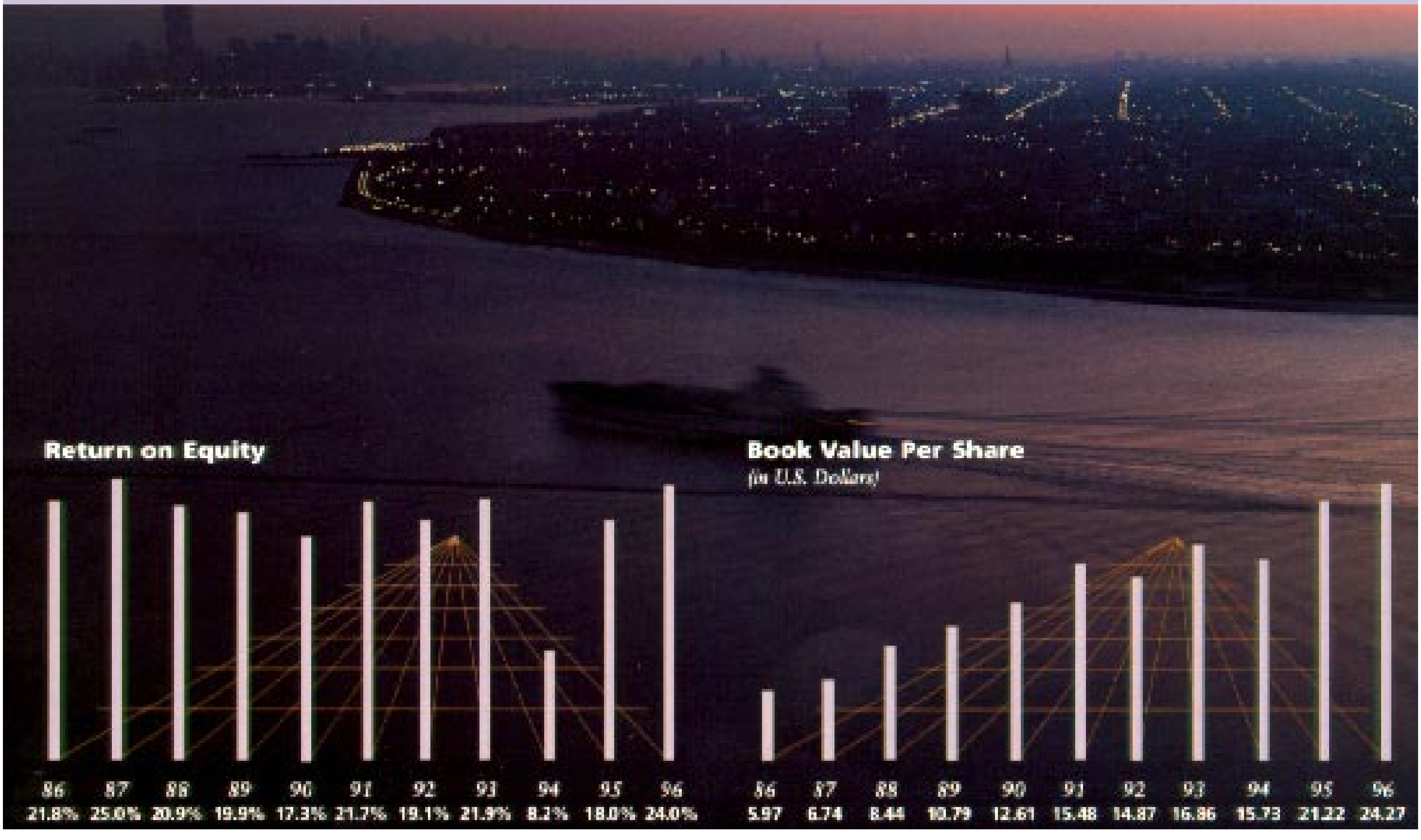
- All risk classes of business underwritten.
- Net line orientation.
- Available as direct insurance or reinsurance of a captive or required "national or fronted" insurance.
- Multi-year, non-cancelable, finite/fund-ing, Single Aggregate Limit with discounted premium over multi-years (MAXL) options are available.
- Claims disputes are subject to London arbitration.
- Premium is due on or before inception date.
- Minimum annual premium US$100,000.

Business Mix

Metal Working	16%
Electronics	4%
Chemical	11%
Goverment/Municipals	11%
Miscellaneous	11%
Telecommunications	9%
Real Estate	7%
Oil	5%
Retail	5%
Manufacturing	4%
Mining	4%
Pharmaceutical	4%

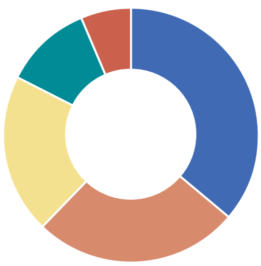
Summary of Selected Financial Information – The First Decade

		1996	1995	1994	1993
Gross premiums written		**$729,446**	$698,020	$638,294	$564,376
Net premiums written		**597,102**	694,337	627,987	530,885
Net premiums earned		**517,892**	558,049	521,177	456,815
Underwriting profit		**33,059**	33,525	32,786	37,163
Net investment income		**198,598**	200,145	182,262	163,816
Realized capital gains		**206,212**	49,774	(95,197)	160,885
Revenues		**981,951**	859,042	633,270	799,737
Operating income		**288,101**	283,024	239,151	218,331
Net income		**494,313**	332,798	143,954	379,216
Operating ratios;	Loss ratio	**78.3%**	79.0%	78.1%	77.3%
	Expense ratio	**15.3**	15.0	15.6	14.6
	Combined ratio	**93.6**	94.0	93.7	91.9
Weighted average shares outstanding		**91,731**	103,438	108,676	111,226
Operating income per share		**$3.14**	$2.74	$2.20	$1.96
Realized gains (losses) per share		**$2.25**	$0.48	($0.88)	$l.45
Net income per share		**$5.39**	$3.22	$1.32	$3.41
Total investments		**$3,772,976**	$3,355,295	$2,943,712	$3,040,012
Total assets		**5,031,538**	4,721,466	3,853,152	3,626,996
Reserves for reported losses and lae		**850,337**	821,925	690,580	551,201
IBNR		**1,248,759**	1,098,575	974,854	808,500
Total reserves		**2,099,096**	1,920,500	1,665,434	1,359,701
Total liabilities		**2,915,500**	2,718,773	2,168,759	1,783,902
Shareholders' equity		**2,116,038**	2,006,133	1,684,393	1,843,094
Return on equity		**24.0%**	18.0%	8.2%	21.9%
Per share;	Cash dividend	**$0.95**	$0.71	$0.62	$0.54
	Book Value	**$24.27**	$21.22	$15.73	$16.86
	Market price	**$38.88**	$31.19	$18.75	$21.69



1992	1991	1990	1989	1988	1987	1986
$459,745	$406,085	$394,460	$338,116	$317,250	$295,237	$206,620
434,505	398,775	387,291	333,497	313,044	295,237	206,620
409,057	388,261	360,636	326,166	311,444	281,113	72,603
29,742	24,902	30,751	30,328	50,970	81,807	39,495
172,411	171,579	141,010	133,728	91,008	63,815	21,180
84,927	71,486	4,327	1,553	(6,622)	(2,569)	1,151
666,395	631,326	506,832	462,784	397,040	346,648	94,934
201,197	195,480	172,158	165,337	144,838	146,911	54,288
286,124	266,966	176,485	166,890	138,216	144,342	55,439
77.3%	77.4%	78.0%	72.4%	66.7%	52.5%	35.6%
15.4	16.2	13.5	18.3	16.4	18.4	18.8
92.7	93.6	91.5	90.7	83.1	70.9	54.4
114,158	110,556	108,012	108,042	108,300	113,090	91,590
$1.76	$1.77	$1.59	$1.53	$l.34	$1.30	$0.59
$0.75	$0.65	$0.06	$0.05	($0.01)	$0.04	$0.07
$2.51	$2.42	$l.65	$l.58	$l.33	$l.34	$0.66
$2,639,648	$2,489,412	$1,878,868	$1,614,333	$1,218,150	$764,710	$598,947
3,067,328	2,731,134	2,199,303	1,918,413	1,355,978	972,791	862,857
331,629	184,444	180,680	100,782	363	-	-
837,374	772,900	618,542	515,829	380,743	173,542	25,847
1,169,003	957,344	799,222	616,611	381,106	173,542	25,847
1,440,016	1,364,938	1,100,899	979,775	621,315	383,609	295,645
1,627,312	1,366,196	1,098,404	938,638	734,663	589,182	567,212
19.1%	21.7%	17.3%	19.9%	20.9%	25.0%	21.8%
$0.36	$0.61	$0.15	$0.12	-	-	-
$14.87	$15.48	$12.61	$10.79	$8.44	$6.74	$5.97
$22.75	$15.50	-	-	-	-	-

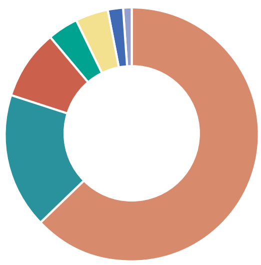
Financial Contents



Investment Asset Mix

as of November 30, 1996

Corporate	36.2%
US Government & Gov't Agencies	26.1%
Equities	20.2%
Non-US Sovereign	11.2%
Cash	6.3%



Business Mix

as of November 30, 1996

General Liability	63%
Specialty Reinsurance Assumed	17%
Professional Liability (E&O)	9%
Property	4%
Directors & Officers	4%
Risk Solutions	2%
Employment Practices Liability	1%

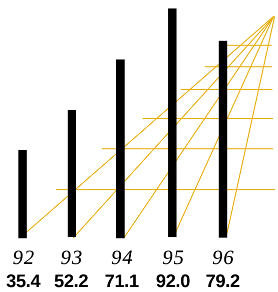
XLE Risk Class

as of November 30, 1996

Marine	23%
Oil & Gas	15%
Professional Liability	14%
Rail	12%
Chemical	10%
Pharmaceutical	8%
Miscellaneous	6%
Industrial	5%
Property	4%
Directors & Officers	3%

XLE Annual Gross Premiums Written

(in Millions)



Selected Financial Data

The selected consolidated financial data below should be read in conjunction with the consolidated financial statements and the notes thereto presented on pages 42 to 54 in this Annual Report.

(in thousands of U.S. dollars, except per share amounts and ratios)	**1996**	1995	1994	1993	1992
Income Statement Data:					
Gross premiums written	**$729,446**	$698,020	$638,294	$564,376	$459,745
Net premiums written	**597,102**	694,337	627,987	530,885	434,505
Net premiums earned	**517,892**	558,049	521,177	456,815	409,057
Net investment income	**198,598**	200,145	182,262	163,816	172,411
Realized gains (losses)	**206,212**	49,774	(95,197)	160,885	84,927
Equity in net income of affiliate	**59,249**	51,074	25,028	18,221	-
Losses and loss expenses	**405,357**	440,922	407,172	353,256	316,325
Acquisition costs and administration expenses	**79,476**	83,602	81,219	66,396	62,990
Income before income tax expense	**497,118**	334,518	144,879	380,085	287,080
Net income	**494,313**	332,798	143,954	379,216	286,124
Net income per share (1) (2)	**$5.39**	$3.22	$1.32	$3.41	$2.51
Weighted average shares outstanding (2)	**91,731**	103,438	108,676	111,226	114,158
Cash dividends per share (2) (3)	**$0.95**	$0.71	$0.62	$0.54	$0.36
Balance Sheet Data:					
Total investments	**$3,772,976**	$3,355,295	$2,943,712	$3,040,012	$2,639,648
Cash and cash equivalents	**252,734**	673,433	456,176	264,484	244,220
Investment in affiliates	**414,891**	351,669	230,852	195,485	100,000
Total assets	**5,031,538**	4,721,466	3,853,152	3,626,996	3,067,328
Unpaid losses and loss expenses	**2,099,096**	1,920,500	1,665,434	1,359,701	1,169,003
Shareholders' equity	**2,116,038**	2,006,133	1,684,393	1,843,094	1,627,312
Book value per share (2)	**$24.27**	$21.22	$15.73	$16.86	$14.87
Fully diluted book value per share (2)	**$24.21**	$21.11	$15.73	$16.81	$14.25
Operating Ratios:					
Loss and loss expense ratio	**78.3%**	79.0%	78.1%	77.3%	77.3%
Underwriting expense ratio	**15.3**	15.0	15.6	14.6	15.4
Combined ratio	**93.6**	94.0	93.7	91.9	92.7

(1) Net income per share is based on the weighted average number of ordinary shares and ordinary share equivalents outstanding for each period using the modified treasury stock method.

(2) All share and per share information has been retroactively restated to give effect to a ten-for-one share split, paid in the form of a dividend to shareholders of record on May 3, 1991 and a one for one stock dividend paid to shareholders of record on July 26, 1996.

(3) The 1996 amount represents four regular quarterly dividends, one at $0.20 per share and three at $0.25 per share. The 1995 amount represents four regular quarterly dividends, three at $0.17 per share and one at $0.20 per share. The 1994 amount represents four regular quarterly dividends, three at $0.15 per share and one at $0.17 per share. The 1993 amount represents four regular quarterly dividends, three at $0.13 per share and one at $0.15 per share. The 1992 amount represents three regular dividends of $0.12 per share.

Management's Discussion and Analysis of Results of Operations and Financial Condition

The following is a discussion of the Company's results of operations and financial condition. This discussion and analysis should be read in conjunction with the consolidated financial statements and the notes thereto presented on pages 42 to 54 in this Annual Report.

Results of Operations for the Years Ended November 30, 1996, 1995 and 1994

Table I presents an analysis of the Company's underwriting revenues for the periods indicated:

Table I

	Year ended November 30,					
	1996		1995		1994	
	(U.S. dollars in thousands)					
	Amount	**Percent Change from Prior Year**	Amount	Percent Change from Prior Year	Amount	Percent Change from Prior Year
Gross premiums written	**$729,446**	**4.5%**	$698,020	9.4%	$638,294	13.1%
Net premiums written	**597,102**	**(14.0)**	694,337	10.6	627,987	18.3
Net premiums earned	**517,892**	**(7.2)**	558,049	7.1	521,177	14.1

Changes in the levels of gross premiums written between years is affected by the level of multi-year premiums written. Gross premiums on multi-year contracts are written at the time the contract is incepted. In order to reflect the equivalent of an annual contract to provide a true year-to-year comparison, premiums written for future years net of premiums written in prior years that relate to the current year are identified. The multi-year effect is reflected in Tables II and III. Gross premiums written in 1994 also included loss surcharge premiums of $12 million assessed on insureds that had adverse loss experience in prior years. (Such surcharges are non-recurring unless the insureds continue to experience losses.) In addition, during the fourth quarter of 1995, a mandatory reinstatement premium was written, triggered by a loss in excess of a specified threshold, resulting in a retrospective portion of $7.3 million, determined in accordance with the "with or without method" as required by EITF 93-6 and 93-14. After adjusting for the aforementioned items, gross premiums increased 1.4%, 11.1% and 1.7% for the 1996, 1995 and 1994 fiscal years, respectively.

Net premiums written were likewise impacted by the above mentioned adjustments. In addition net premiums written in 1996 were affected by the general liability quota share reinsurance policy which came into effect on December 1, 1995. The policy covers general liability risks written on a guaranteed cost form, with certain exclusions. X.L. and X.L.E. cedes 20% of these risks with a total limit of up to $100 million and 25% with a total limit in excess of $100 million. The resulting adjustments noted in Table III resulted in a decrease of 1.4% in 1996 from the prior year. The decrease is reflective of the growth in product lines of property, X.L. Risk Solutions and employment practices liability. As each of these lines are reinsured, growth will increase the amount of premiums ceded.

Net premiums in 1994 included premiums ceded under a clash reinsurance cover which was discontinued at the end of that year. Adjusting for this premium and the effects of multi-year premiums, net premiums written increased 10.5% in 1995 over 1994. In fiscal 1993, in addition to the clash reinsurance cover X.L. and X.L.E. also purchased an aggregate excess of loss cover which was commuted effective November 30, 1993. Taking these nuances into account, net premiums written increased 2.9% in 1994 over the prior reporting year.

The decline in net premiums earned in 1996 is due to the effect of the geneneral liability quota share policy. Adjusting for this policy and the retrospective portion of reinstatement premium in 1995, net premiums earned would have increased by 5.9%. As the growth in net premiums earned lags behind the growth in net premiums written, net premiums earned will exceed the net premiums written temporarily, when the growth in the latter slows. Following the adjustment of the previously mentioned items as noted in Table III, net premiums earned increased 6.1% and 7.3% in 1995 and 1994, respectively.

Table II presents the split of gross premiums written by X.L., X.L.E. and XLRe by line of business and after multi-year adjustments, for the years indicated:

Table II

	1996				1995			1994		
	X.L.	**X.L.E.**	**XLRe**	**Total**	X.L.	X.L.E.	Total	X.L.	X.L.E.	Total
General liability	**$322,986**	**$51,044**	**-**	**$374,030**	$366,714	$61,069	$427,783	$380,026	$60,199	$440,225
Directors & officers liability	**20,819**	**2,099**	**-**	**22,918**	22,393	2,392	24,785	29,322	1,873	31,195
Professional liability	**41,776**	**10,662**	**-**	**52,438**	42,430	10,825	53,255	45,561	9,032	54,593
Employment practices liability	**3,006**	**-**	**-**	**3,006**	-	-	-	-	-	-
Property	**25,472**	**810**	**-**	**26,282**	20,035	1,708	21,743	9,753	-	9,753
X.L. Risk Solutions	**8,252**	**-**	**-**	**8,252**	-	-	-	-	-	-
Specialty reinsurance assumed	**13,265**	**14,602**	**75,392**	**103,259**	45,658	16,020	61,678	-	-	-
Annualized premium	**435,576**	**79,217**	**75,392**	**590,185**	497,230	92,014	589,244	464,662	71,104	535,766
Multi-year premiums	**14,993**	**13,096**	**111,172**	**139,261**	99,188	9,588	108,776	93,057	9,471	102,528
Gross premiums written	**$450,569**	**$92,313**	**$186,564**	**$729,446**	$596,418	$101,602	$698,020	$557,719	$80,575	$638,294

The growth in gross written premiums adjusted to an annual basis in 1995 was principally due to the introduction of Specialty Reinsurance Assumed ("SRA") and the growth in the property product. Similarly, in 1996, these lines continued to experience growth together with the introduction of two new product lines; X.L. Risk Solutions and employment practices liability. This growth was however offset by lower premiums written on general liability and modest decreases on the directors and officers, and professional liability lines.

SRA policies assumed by X.L. and X.L.E. tend to be few in number but generate significant levels of premiums due to the nature of the risks, their sensitivity to losses and the multi-year coverage. Similar to existing contracts written under the applicable alternate rating methodology, some of these contracts maintain loss accounts contractually defined as a percentage of premiums received net of losses paid. Where reinsureds are loss free, such loss accounts are returnable, resulting in potentially significant return premiums. This was the case during the third quarter in 1996 when two insureds canceled and entered into new contracts. The previous and new contracts cover property risks and, when canceled, resulted in the return of $10.8 million and unearned premium for years two and three of $48.5 million. Because of the intent of these respective reinsureds to cancel and rewrite their contracts after one year where they were loss free, only the first year of the renewal premium has been recorded as premium. The intent of other existing property reinsureds will be assessed on the first anniversary of their contracts and will be accounted for in accordance with their intent at that time.

SRA premiums assumed by X.L.E. relate solely to a speciality program, where reinsurance protection is provided to a Bermuda-based reinsurer who provides certificates of financial responsibility to ship owners in order for them to comply with the U.S. Oil Pollution Act of 1990. The decline in premiums in 1996 reflects the availability of additional capacity from alternate sources. It is expected this program will continue to decline from its existing level.

X.L. Risk Solutions, one of the Company's new product lines, was introduced late in the second quarter of 1996. X.L. Risk solutions is an initiative with CIGNA to provide combined limits of capacity for two or more of the Company's stand alone product lines over three or more years. In addition, the Company has commenced providing combined property capacity coverage with CIGNA which is reflected in the property line, together with the continuing growth of the Company's traditional property cover. It should be noted, while this combined capacity provides growth to gross premiums written, the cession of CIGNA's share of limits will reduce net premiums written and earned.

Employment practices liability was introduced during the 1996 fiscal year in reponse to a deemed need for this capacity. While the Company is optimistic that further growth will be experienced in this area, there are no assurances that this will be the case.

General liability insurance results continue to reflect the impact of competitive pressures from the U.S. domestic market in both terms and pricing. Despite these pressures, this division managed to retain 87.9% of its business. Excluding insureds acquired by existing insureds this ratio increased to 89.7%. Retention ratios for 1995 and 1994 were 89.7% and 93%, respectively. Average attachments were $78.7 million, $73.0 million and $63.7 million and average limits were $80.2 million, $72.8 million and $75.0 million for the years ending November 30, 1996, 1995 and 1994, respectively. Accordingly, the decrease in premiums has been a factor of increased attachments and lost business which has not been replaced by new business.

The traditional professional and directors and officers liability lines have declined only modestly despite significantly increased levels of competition.

Table III presents certain underwriting information with respect to the business written, reflecting comparative adjustment, by the Company for the years indicated:

Table III

	Year ended November 30,								
	Gross Premiums Written			Net Premiums Written			Net Premiums Earned		
	1996	1995	1994	**1996**	1995	1994	**1996**	1995	1994
	(U.S. dollars in thousands)								
General Liability	**$432,002**	$446,730	$533,045	**$319,745**	$446,730	$524,757	**$325,777**	$427,944	$431,838
Directors and officers liability	**27,612**	24,785	31,195	**27,612**	24,785	30,596	**23,893**	27,522	31,193
Professional liability	**56,517**	53,983	60,301	**56,517**	53,983	59,305	**53,822**	53,939	51,898
Employment practices liability	**3,006**	-	-	**1,849**	-	-	**449**	-	-
Property	**40,691**	18,293	13,753	**30,678**	14,610	13,328	**20,622**	13,760	6,248
X.L. Risk Solutions	**24,757**	-	-	**15,840**	-	-	**2,263**	-	-
Specialty reinsurance assumed	**144,861**	154,229	-	**144,861**	154,229	-	**91,066**	34,884	-
Per financial statements	**729,446**	698,020	638,294	**597,102**	694,337	627,987	**517,892**	558,049	521,177
Adjustment for multi-year premiums	**(139,261)**	(108,776)	(102,528)	**(139,261)**	(108,776)	(102,528)	**-**	-	-
Retrospective portion of mandatory reinstatement premium	**-**	(7,253)	-	**-**	(7,253)	-		(7,253)	-
Loss surcharges	**-**	-	(12,000)	**-**	-	(12,000)	**-**	-	(12,000)
Clash reinsurance	**-**	-	-	**-**	-	9,881	**-**	-	9,881
Reinsurance ceded general liability quota share	**-**	-	-	**112,257**	-	-	**65,159**	-	-
Adjusted premiums	**$590,185**	$581,991	$523,766	**$570,098**	$578,308	$523,340	**$583,051**	$550,796	$519,058

Table IV presents an analysis of the Company's revenues from its portfolio of investments and its investments in affiliates:

Table IV

	Year ended November 30, 1996		1995		1994	
	(U.S. dollars in thousands)					
	Amount	**Percent Change from Prior Year**	Amount	Percent Change from Prior Year	Amount	Percent Change from Prior Year
Net investment income	**$198,598**	**(0.8)%**	$200,145	9.8%	$182,262	11.3%
Net realized gains (losses)	**206,212**	**N.M.**	49,774	N.M.	(95,197)	N.M.
Equity in net income of affiliate(s)	**59,249**	**16.0%**	51,074	100.0%	25,028	37.4%

Net investment income included unrealized currency (losses) gains of nil, ($3.1) million and $4.1 million for the years ended 1996, 1995 and 1994 respectively. The changes in net investment income over the last three years reflects the volatility of the U.S. bond market and its impact on investment yields.

Significant gains were realized in 1996 for two reasons. Firstly, during the first half of the year the Company had liquidated two fixed maturity and one equity portfolio due to similarities in strategies between managers. Secondly, during the fourth quarter of 1996 additional gains were realized by investment managers due to the strength of both the bond and equity markets. Of the total gains generated in this quarter $35 million was realized by a synthetic equity portfolio. A further discussion of these derivatives is included under Financial Condition and Liquidity. Gains realized in 1995 reflect the strengthening of the US$ bond market over its extremely weak position in 1994 and the overall rise in the equity market.

The increase of equity in net income of affiliates is almost solely attributable to Mid Ocean Limited ("MOCL"). The increase over 1995 is reflective of its expansion in operations. The increase of 1995 over 1994 is due to higher earned premiums with comparable incurred losses, coupled with the turn around of the bond market in 1995. The Company's share of net earnings from MOCL included realized gains (losses) of $0.6 million, $0.4 million and ($5.2) million for 1996, 1995 and 1994, respectively.

Table V sets forth the Company's combined ratios, using generally accepted accounting principles, and the components thereof for the periods indicated:

Table V

	Year Ended November 30, 1996	1995	1994
Loss and loss expense ratio	**78.3%**	79.0%	78.1%
Underwriting expense ratio	**15.3**	15.0	15.6
Combined ratio	**93.6**	94.0	93.7

The loss and loss expense ratio increase in 1995 was due to an increase in the 1995 underwriting year ultimate loss ratio from 75% to 77% reflecting the discontinuation of the clash reinsurance and the price reductions experienced as a result of competitive pressures. In addition, the retrospective portion of the mandatory reinstatement premium was credited to loss reserves at 100%. While the 1989, 1991, 1992, and 1994 loss years continue to develop beyond expected loss emergence patterns, there has been no impact on the loss ratio as reserves have been released from 1990 based upon a review of outstanding loss notices.

The decrease in the loss and loss expense ratio in 1996 relates primarily to the additional premium earned on the SRA business. Reserves are established on this business on a contract by contract basis. Most of this business assumed by X.L. and XLRe to date has been short tailed, and due to the level of attachments involved no IBNR has been established on several contracts. The decreasing effect this business has on the loss and loss expense ratio has been offset to some degree by losses incurred of $14.5 million relating to prior years. Loss developments in 1991 and 1995 have been largely offset by reserves provided by good loss experience in 1993 and 1994.

The underwriting expense ratio in 1995 was impacted by a retroactive pension plan for the Directors which increased the expense ratio by 0.4%. The 1995 underwriting expense ratio declined modestly to 15.0% from the adjusted 1994 ratio of 15.2%. Despite the continued operational expansion of the Company, increased administration costs have been offset by lower acquisition costs as a percentage of premiums written. The lower acquisition costs are attributed to the new specialty reinsurance assumed and property product lines. The increase in the underwriting expense ratio reflects the increased expansion of operations necessary to pursue new business and retain existing business in an increasingly competitive market.

The underwriting expense ratio in 1996 reflects the impact of the general liability quota share reinsurance treaty. The reduction in net premiums earned was offset by commissions earned on this business. In addition, during the fourth quarter X.L. acquired the assets of the American Excess Insurance Association (''AEIA"). X.L. is subject to a fee based upon the level of the AEIA book which binds with X.L. This fee will be expensed over five years. After adjusting for the aforementioned, the expense ratio would have been 15.8%.

The insurance industry uses the combined ratio as a measure of underwriting profitability. The combined ratio reflects only underwriting results and does not include investment income. Generally, a combined ratio under 100 indicates underwriting profits and a combined ratio over 100 indicates underwriting losses. Although the Company believes the combined ratio is significantly better than the average ratio achieved by the industry, the Company does not believe that comparing the industry's ratios to those of the Company is valid for three reasons. Firstly, the Company's attachment points and limits are materially higher than the rest of the industry. Secondly, the Company has limited claims experience owing to its brief operating history as compared with the rest of the industry. Thirdly, the Company has a relatively small number of employees compared to the industry as a result of the higher attachment points and limits.

The underwriting expense ratios prepared in accordance with generally accepted accounting principles reflect the deferral of acquisition costs and are expressed as a percentage of net premiums earned whereas such ratios prepared in accordance with statutory accounting principles do not reflect any deferral of acquisition costs and are expressed as a percentage of net premiums written. The Company's underwriting expense ratios prepared in accordance with generally accepted accounting principles include expenses of the insurance company, its parent company and all consolidated subsidiaries of the parent whereas such ratios prepared in accordance with statutory accounting principles include only the expenses of the insurance company, including intercompany charges of affiliates. However, the loss and loss expense ratio of the Company would be the same, and the underwriting expense ratio would not be materially different, if such ratios were calculated in accordance with Bermuda statutory accounting principles.

Except for X.L.I.B. and X.L.E., which are subject to a maximum tax rate of 2.5% and 10%, respectively, the Company and its subsidiaries are exempt from income taxes in the jurisdictions (other than withholding taxes based on dividend income) in which they operate. Income tax expense was $2,805,000 in 1996, $1,720,000 in 1995 and $925,000 in 1994.

Net income was $494.3 million, $332.8 million, and $144.0 million, or $5.39, $3.22 and $1.32 per share in 1996, 1995 and 1994, respectively, representing increases (decreases) per share compared to the preceding years of 67.4%, 143.9%, and (61.3%), respectively. The change in per share amounts in 1995 over 1994 reflects increased revenues from all categories but primarily due to realized gains of $49.8 million compared to realized losses of $95.2 million. The increase in per share amounts in 1996 over 1995 is attributable to realized gains of $206.2 million compared to $49.8 million and a decrease in the weighted average shares outstanding from 103.4 million shares to 91.7 million shares.

Financial Condition and Liquidity

As a holding company, the Company's assets consist primarily of its investments in the stock of its subsidiaries and the Company's future cash flows depend on the availability of dividends or other statutorily permissible payments from its subsidiaries. In order to pay dividends, the amount of which is limited to accumulated net realized profits, X.L. must maintain certain minimum levels of share capital, solvency and liquidity pursuant to Bermuda statutes and regulations. At November 30, 1996, X.L. could have paid dividends in the amount of approximately $1.1 billion. Neither the Company nor any of its subsidiaries other than X.L. and XLRe had any other restrictions preventing them from paying dividends. No assurance, however, can be given that the Company or its subsidiaries will not be prevented from paying dividends in the future. The Company's shareholders' equity at November 30, 1996 was $2.1 billion, of which $1.6 billion was retained earnings.

At November 30, 1996, total investments and cash net of the payable for investments purchased were $4.0 billion, compared to $3.8 billion at November 30, 1995. The increase is due to the reinvestment of investment income and realized gains and the strengthening of the bond and equity markets; however, as the Company's business matures over the next three to five years, it is likely that claims payments will increase due to the increased exposure to events which occurred in prior years but have not yet been reported or paid. It is likely that the excess funds available for investments will be reduced as compared to prior years due to such increased claims payments. The Company's fixed income investments (including short-term investments and cash equivalents) at November 30, 1996 represented approximately 80% of invested assets and were managed by several outside investment managers with different strategies. Of the fixed income securities 90% are of investment grade, and over 90% of the portfolio is in U.S. and non-U.S. sovereign government (each of which is a member of the Organization for Economic Cooperation and Development) obligations and corporate and other securities with 73% rated Aa or AA or better by a nationally recognized rating agency. In addition, total investments and cash net of the payable for investments purchased included $210.6 million in cash and cash equivalents at November 30, 1996.

In fiscal 1994, 1995 and 1996 the total amount of losses paid by the Company was $138.7 million, $188.5 million and $302.6 million, respectively.

Insurance practices and regulatory guidelines suggest that property and casualty insurance companies maintain a ratio of net premiums written to statutory capital and surplus of not greater than 3 to 1, with a lower ratio considered to be more prudent for a company that insures the types of exposures written by X.L. which maintained a ratio of 0.9 to 1 for the year ended November 30, 1994, 0.8 to 1 for the year ended November 30, 1995 and 0.5 to 1 for the year ended November 30, 1996. This ratio has declined largely due to the increased levels of reinsurance ceded during 1996. XLRe had a ratio of 0.08 to 1 for the year ended November 30, 1996 due to the 75% quota share treaty with X.L.

The Company establishes reserves to provide for the estimated expenses of settling claims, the general expenses of administering the claims adjustment process and for losses incurred but not reported. These reserves are calculated by using actuarial and other reserving techniques to project the estimated ultimate net liability for losses and loss expenses. No assurance can be given that actual claims made and payments related thereto will not be in excess of the amounts reserved.

Inflation can have an effect on the Company in that inflationary factors can increase damage awards and potentially result in more claims exceeding applicable minimum attachment points. The Company's underwriting philosophy is to adjust premiums in response to inflation, although this may not always be possible due to competitive pressure. Inflationary factors are considered in determining the premium level on multi-year policies at the time contracts are written. In addition, the Company from time to time evaluates whether minimum attachment points should be raised to take into account inflationary factors.

Corporate

On September 30, 1994, the Company's Board of Directors authorized the Company to repurchase 4 million of its shares as circumstances warrant. As of November 30, 1994, the Company had repurchased 1.1 million shares at a cost of $21.9 million. The balance of the repurchase program was completed by June 23, 1995, at a cost of $69.2 million. On June 23, 1995, the Company's Board of Directors authorized the repurchase of a further 10 million shares as circumstances warrant. This repurchase program was completed by October 11, 1995, at a cost of $270.0 million. On December 1, 1995, the Company's Board of Directors authorized the Company to repurchase a further 6 million of its shares as circumstances warrant. This repurchase program was completed by July 8, 1996 at a cost of $207.7 million. On June 28, 1996, the Company's Board of Directors authorized the Company to repurchase a further 5 million shares. As at November 30, 1996, 2.2 million shares had been repurchased at a cost of $74.7. There are 2.8 million shares remaining in this program. All shares amounts are adjusted for the one for one stock dividend paid to shareholders of record July 26, 1996.

On November 19, 1996 the Company established a $200 million revolving line of credit with Mellon Bank. This facility will be drawn upon in the event cashflow from operating activities is insufficient or its timing does not coincide with outgoing cashflow commitments in the future. This facility has not been established to fulfill an existing obligation and was not drawn upon in fiscal 1996.

The Company has also contracted to a letter of credit totalling $108.1 million through Mellon Bank on behalf of Venton Underwriting Agency, Ltd. ("VUA") on November 26, 1996. The Trident Limited Partnership, L.P. ("Trident") an investment fund of which the Company is a 7.5% limited partner, and RCHI have invested in Venton Holdings, Ltd. which owns VUA. All fees and drawdowns are, in effect, covered on a pro rata basis byTrident and RCHI.

Both the Company's revolving credit facilities and the letters of credit on behalf of VUA are collateralized by the Company's investment portfolio.

Foreign Currency Risk Management

The Company undertakes no obligation to update publicly its beliefs expressed herein.

Foreign Exchange Contracts

As part of its current investment strategy, the Company invests in non-U.S. Dollar denominated fixed maturities and equities. The Company attempts to hedge 100% of the foreign currency exposure of its non-U.S. Dollar fixed maturity investments using forward foreign exchange contracts that generally have maturities of three months or less, and which are rolled over to provide continuing coverage for as long as the investments are held. When an investment is sold, the related foreign exchange sale contract is closed by entering into an offsetting purchase contract. At November 30, 1996 the Company had, as hedges, foreign contracts for the sale of $215.2 million and the purchase of $32.6 million of foreign currencies at fixed rates, primarily Canadian Dollars (31% of net contract value), French Francs (20%), German Marks (18%), British Pounds (18%), and Japanese Yen (10%). The market value of non-U.S. Dollar fixed maturities held by the Company as at November 30, 1996 was $188.5 million.

Unrealized foreign exchange gains or losses on foreign exchange contracts hedging non-U.S. Dollar fixed maturity investments are deferred and included in shareholders' equity. As at November 30, 1996, unrealized deferred gains amounted to $0.2 million, and were offset by corresponding decreases in the dollar value of the investments. Realized gains and losses on the maturity of these contracts are also deferred and included in shareholders' equity until the corresponding investment is sold. As at November 30, 1996, realized deferred gains amounted to $3.3 million.

The Company uses foreign exchange contracts to manage the foreign exchange risk of fluctuating foreign currencies on the value of its non-U.S. Dollar equity investments. These contracts are not designated as specific hedges and, therefore realized and unrealized gains and losses recognized on them are recorded as a component of net realized gains and losses in the period in which they occur. In addition, where the Company's investment managers are of the opinion that potential gains exist in a particular currency, then a forward contract will not be entered into. At

November 30, 1996 the Company had such forward contracts outstanding of $355.5 million with unrealized gains of $2.9 million with no realized gains or losses during the twelve month period. Based on this value, a 5% appreciation or devaluation of the U.S. Dollar as compared to the level of other currencies under contract at November 30, 1996 would have resulted in approximately $10.1 million in unrealized gains and $5.1 million in losses.

In addition, the Company also enters into foreign exchange contracts to buy and sell foreign currencies in the course of trading its non-U.S. Dollar investments. These contracts are not designated as specific hedges, and generally have maturities of two weeks or less. As such, any realized or unrealized gains or losses are recorded in income in the period in which they occur. At November 30, 1996, the Company had $1.3 million of such contracts outstanding, and had recognized a total of $0.7 million in realized and unrealized losses for the twelve month period. Based on this value, a 5% appreciation or devaluation of the U.S. Dollar as compared to the level of other currencies under contract at November 30, 1996 would have had no material effect on income.

Speculative Financial Instruments

In accordance with its current investment guidelines, the Company may invest up to 30% of its investment portfolio in equity securities. During 1996 these guidelines were amended so that this exposure could be obtained by direct holdings of publicly traded equities and by investing in a synthetic equity portfolio. In this synthetic equity portfolio, S&P 500 Index futures are held with an exposure approximately equal in amount to the market value of underlying assets held in this fund. As at November 30, 1996, the portfolio held $248.2 million in exposure to S&P 500 Index futures together with fixed maturities, short-term investments and cash amounting to $247.6 million. Based on this value, a 5% increase or decrease in the price of these futures would have resulted in positions of $260.6 million and $235.8 million respectively. The value of the futures is updated daily with the change recorded in income as a realized gain or loss. For the year ended November 30, 1996, net realized gains from index futures totalled $37.4 million as a result of the 27.5% increase in the S&P 500 Stock Index during the twelve month period.

Accounting Standard

The Financial Accounting Standards Board has issued Statement No. 123, "Accounting for Stock-Based Compensation", effective for fiscal years beginning after December 15, 1995, recognizing awards granted in the first fiscal year after December 15, 1994. This Statement defines a fair value based method of accounting for stock options or similar equity instruments in which an entity acquires goods or services by issuing same. Entities can either adopt the new method or continue to use APB Opinion No. 25, providing pro forma disclosure of net income and earnings per share as if the fair value based method had been adopted. The Company intends to follow the latter alternative, providing the necessary disclosure for the fiscal year ending 1997. (The presentation of 1996 pro forma disclosure needs only to be provided whenever financial statements for said fiscal year are presented for comparative purposes with financial statements for later fiscal years.)

Current Outlook

The Company believes competitive pressures will continue into 1997 and constrain growth in the Company's traditional markets. However, the Company believes specific opportunities will exist in 1997 for growth in the Company's property, X.L. Risk Solutions and employment practices liability product lines, XLRe's specialty reinsurance lines, and further developments in non-U.S. business, although no assurances can be given. The Company undertakes no obligation to update publicly changes in its beliefs expressed herein.

Report of Management's Responsibilities

Management is responsible for the integrity of the consolidated financial statements and related notes, thereto, which have been prepared in accordance with generally accepted accounting principles. The consolidated financial statements include management's estimates for transactions not yet complete or for which the ultimate effects cannot be precisely determined.

The Company maintains internal accounting controls which have been designed to provide reasonable assurance that all assets are safeguarded against unauthorized use or disposition and that transactions are authorized, executed and recorded properly in accordance with management's authorization. The internal accounting controls are continually reviewed by qualified personnel.

The Company engages Coopers & Lybrand as independent auditors to audit the consolidated financial statements and express their opinion thereon. Their audits include a review and evaluation of the Company's internal controls and sytems, the testing of the accounting records and other procedures necessary to support the opinion. Coopers & Lybrand has the right of full access to all records and members of management in concluding their audits.

The Audit Committee of the Board of Directors comprises solely of independent directors and meets regularly with the management of Coopers & Lybrand to review the scope and result of the audit work performed. Coopers & Lybrand has the right of access to the Audit Committee, without the presence of management, to discuss any matter they believe should be brought to the attention of the Committee.

Brian M. O'Hara
Chairman, President and
Chief Executive Officer

Brian G. Walford
Executive Vice President and
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of EXEL Limited:

We have audited the accompanying consolidated balance sheets of EXEL Limited as of November 30, 1996 and 1995, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended November 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of EXEL Limited as of November 30, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 1996 in conformity with accounting principles generally accepted in the United States of America.

Coopers & Lybrand

Coopers & Lybrand

Hamilton, Bermuda
January 23, 1997

Consolidated Balance Sheets

As at November 30, 1996 and 1995 *(Expressed in thousands of U.S. Dollars)*

	1996	1995
Assets		
Investments:		
Fixed maturities, at market value		
(amortized cost: 1996 - $2,812,415; 1995 - $2,343,143)	**$2,844,877**	$2,434,470
Equity securities, at market value		
(cost: 1996 - $595,149; 1995 - $652,847)	**812,050**	838,132
Short-term investments, at market value		
(amortized cost: 1996 - $115,791; 1995 - $82,696)	**115,999**	82,693
Total investments	**3,772,926**	3,355,295
Cash and cash equivalents	**252,734**	673,433
Investment in affiliates (cost: 1996 - $280,748; 1995 - $261,617)	**414,891**	351,669
Investment in limited partnerships	**23,803**	10,067
Accrued investment income	**55,729**	53,149
Deferred acquisition costs	**30,383**	40,954
Prepaid reinsurance premiums	**63,467**	2,438
Premiums receivable	**345,082**	234,028
Reinsurance balance receivable	**46,444**	1,002
Other assets	**26,079**	2 ,871
Total assets	**$5,031,538**	$4,724,906
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss expenses	**$2,099,096**	$1,920,500
Unearned premiums	**679,535**	539,296
Premiums received in advance	**24,256**	4,880
Accounts payable and accrued liabilities	**39,171**	16,983
Reinsurance premiums payable	**31,347**	823
Payable for investments purchased	**42,095**	236,291
Total liabilities	**$2,915,500**	$2,718,773
Contingencies and commitments		
Shareholders' Equity:		
Ordinary shares (par value $0.01; authorized, 999,990,000 shares; issued and outstanding, 87,170,644 shares (excluding 24,205,100 shares held in treasury) and 94,550,790 shares (excluding 16,000,000 shares held in treasury) at November 30, 1996 and 1995, respectively)	**872**	473
Contributed surplus	**282,980**	295,209
Net unrealized appreciation on investments	**256,430**	283,289
Deferred compensation	**(4,169)**	(1,657)
Retained earnings	**1,579,925**	1,428,819
Total shareholders' equity	**$2,116,038**	$2,006,133
Total liabilities and shareholders' equity	**$5,031,538**	$4,724,906

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Income

For the Years Ended November 30, 1996, 1995 and 1994 *(Expressed in thousands of U.S. Dollars, except per share amounts))*

	1996	1995	1994
Revenues:			
Net premiums earned	**$517,892**	$558,049	$521,177
Net investment income	**198,598**	200,145	182,262
Realized gains (losses) on sale of investments *(Note 3)*	**206,212**	49,774	(95,197)
Equity in net income of affiliate	**59,249**	51,074	25,028
Total revenues	**981,951**	859,042	633,270
Expenses:			
Losses and loss expenses	**405,357**	440,922	407,172
Acquisition costs	**35,556**	53,016	54,315
Administration expenses	**43,920**	30,586	26,904
Total expenses	**484,833**	524,524	488,391
Income before income tax expense	**497,118**	334,518	144,879
Income tax expense	**2,805**	1,720	925
Net income	**494,313**	$332,798	$143,954
Weighted average number of ordinary shares and ordinary share equivalents outstanding	**91,731**	103,438	108,676
Net income per ordinary share and ordinary share equivalent	**$5.39**	$3.22	$1.32

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

For the Years Ended November 30, 1996, 1995 and 1994 *(Expressed in thousands of U.S. Dollars)*

	1996	1995	1994
Ordinary Shares:			
Balance - beginning of year	**$473**	$535	$547
Issuance and redemption of shares			
(aggregate par value less than $1 in 1995 and 1994)	**1**	-	-
Stock dividend	**441**	-	-
Exercise of stock options	**4**	1	-
Repurchase of treasury shares	**(47)**	(63)	(12)
Balance - end of year	**872**	473	535
Contributed Surplus:			
Balance - beginning of year	**295,209**	328,374	335,203
Issuance of restricted shares	**7,493**	1,926	121
Exercise of stock options	**6,045**	4,603	13
Repurchase of treasury shares	**(25,767)**	(39,694)	(6,963)
Balance - end of year	**282,980**	295,209	328,374
Net Unrealized Appreciation (Depreciation) on Investments:			
Balance - beginning of year	**283,289**	(110,410)	79,696
Net change in investment portfolio	**(26,621)**	378,158	(174,574)
Net change in investment portfolio of affiliate	**(238)**	15,541	(15,532)
Balance - end of year	**256,430**	283,289	(110,410)
Deferred Compensation:			
Balance - beginning of year	**(1,657)**	(837)	(1,406)
Issuance of restricted shares	**(3,799)**	(1,800)	-
Amortization	**1,287**	980	569
Balance - end of year	**(4,169)**	(1,657)	(837)
Retained Earnings:			
Balance - beginning of year	**1,428,819**	1,466,731	1,429,054
Net income	**494,313**	332,798	143,954
Cash dividends paid	**(86,586)**	(71,253)	(66,539)
Repurchase of treasury shares	**(256,621)**	(299,457)	(39,738)
Balance - end of year	**1,579,925**	1,428,819	1,466,731
Total shareholders' equity	**$2,116,038**	$2,006,133	$1,684,393

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the Years Ended November 30, 1996, 1995 and 1994 *(Expressed in thousands of U.S. Dollars)*

	1996	1995	1994
Cash flows provided by operating activities:			
Net income	**$494,313**	$332,798	$143,954
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized (gains) losses on sale of investments	**(206,212)**	(49,774)	95,197
Unrealized loss (gain) on foreign exchange	**-**	3,069	(4,092)
Amortization of premium on fixed maturities	**7,021**	5,006	12,954
Equity in net income of affiliate net of cash received	**(44,329)**	(43,703)	(25,028)
Amortization of deferred compensation	**1,287**	980	569
Unpaid losses and loss expenses	**178,596**	255,066	305,733
Reinsurance balances receivable	**(45,442)**	(1,002)	-
Unearned premiums	**140,239**	138,726	106,810
Prepaid reinsurance premiums	**(61,029)**	(2,438)	-
Premiums received in advance	**19,376**	(6,874)	(5,742)
Deferred acquisition costs	**10,571**	(5,237)	(6,514)
Premiums receivable	**(111,054)**	(116,312)	(83,353)
Reinsurance premiums payable	**30,524**	823	-
Accrued investment income	**(2,580)**	6,929	(413)
Accounts payable and accrued liabilities	**22,188**	5,108	1,312
Total adjustments	**(60,844)**	190,367	397,433
Net cash provided by operating activities	**433,469**	523,165	541,387
Cash flow used in investing activities:			
Proceeds from sale of fixed maturities and short-term investments	**4,283,613**	5,504,741	4,507,059
Proceeds from redemption of fixed maturities and short-term investments	**119,706**	81,000	44,000
Proceeds from sale of equity securities	**591,366**	221,212	187,997
Purchases of fixed maturities and short-term investments	**(5,059,795)**	(5,276,683)	(4,678,855)
Purchases of equity securities	**(374,565)**	(401,379)	(221,874)
Deferred gains (losses) on forward contracts	**418**	40,233	(43,638)
Investment in affiliates	**(19,131)**	(59,549)	(25,871)
Investment in limited partnerships	**(13,736)**	(5,642)	(4,426)
Other assets	**(20,208)**	1,605	(691)
Net cash (used in) provided by investing activities	**(492,332)**	105,538	(236,299)
Cash flows used in financing activities:			
Issuance of restricted shares	**695**	126	121
Proceeds from exercise of share options	**6,049**	3,135	12
Repurchase of treasury shares	**(282,435)**	(343,454)	(46,990)
Dividends paid	**(86,145)**	(71,253)	(66,539)
Net cash used in financing activities	**(361,836)**	(411,446)	(113,396)
(Decrease) increase in cash and cash equivalents	**(420,699)**	217,257	191,692
Cash and cash equivalents - beginning of year	**673,433**	456,176	264,484
Cash and cash equivalents - end of year	**$252,734**	$673,433	$456,176
Taxes paid	**$1,571**	$1,056	$1,009

See accompanying notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

For the Years Ended November 30, 1996, 1995 and 1994 *(Expressed in thousands of U.S. Dollars)*

1 *General Operations*

EXEL Limited ("EXEL or the Company") was incorporated with limited liability under the Cayman Islands Companies Act on April 14, 1986 to own all of the outstanding shares of, and to provide capital for, X.L. On January 8, 1990, X.L. obtained a Certificate of Continuance from the Bermuda Government, having originally been incorporated with limited liability under the Barbados Companies Act 1982 on April 11, 1986.

X.L. provided the capital to incorporate X.L.I. on November 16, 1987 under the laws of Bermuda. X.L.I. in turn provided the capital to incorporate X.L.I.B. on May 19, 1989 under the laws of Barbados.

In 1990, X.L. provided the capital to incorporate through two holding companies, X.L.E., under the laws of the Republic of Ireland.

On November 1, 1995, XLRe was incorporated under the laws of Bermuda as a wholly-owned subsidiary of X.L. and subsequently commenced operations effective December 1, 1995.

X.L. and X.L.E. provide on an occurrence-reported policy form:

~ Third party liability coverage, generally up to a maximum of $150 million per occurrence and annual aggregate in excess of a minimum attachment point generally of $25 million and $15 million per occurrence, for United States and non-United States risks, respectively.

X.L. and X.L.E. provide on a claims-made policy form:

~ Directors and Officers liability up to a maximum of $25 million in excess of $20 million for United States risks and up to $50 million for individual director indemnification and excluding corporate reimbursement in excess of $20 million, or $15 million in excess of $15 million for non-United States risks, or a limit of $25 million in excess of not less than $25 million.

~ Professional liability coverage, for certain categories of risk, up to a maximum of $50 million with a minimum attachment point of $25 million, or $20 million for law firms.

The general liability and the professional liability coverages are also offered with the premiums calculated utilizing an alternate rating formula. These policies have a minimum attachment point of $10 million with the maximum limit not to exceed $150 million for general liability and $50 million for professional liability.

X.L. provides on a claims-made and reported policy form employment practices liability up to a maximum of $100 million with a minimum attachment of $1 million.

X.L. and X.L.E. provide coverage for high excess property insurance currently offered up to $100 million of capacity per occurrence and $10 million annual aggregate for high frequency/severity earthquake. The minimum attachment is generally $25 million for industrial/commercial accounts and $100 million for oil/petrochemical accounts.

During February 1996, X.L. Risk Solutions and CIGNA Risk Solutions were announced as a coordinated initiative between X.L. and CIGNA Property & Casualty ("CIGNA"). The product provides combined capacity for traditional casualty and property coverages provided by subsidiaries of the Company or CIGNA. Available capacity by line of coverage is $60 million to $200 million depending upon the lines selected. Attachment levels, may in certain situations be provided below traditional stated levels subject to stringent underwriting requirements.

XLRe provides large net line capacity for specialized programs to insurance/reinsurance companies, predominantly in the United States and Bermuda, and to a lesser extent, other geographic regions around the world. Each contract is underwritten utilizing actuarial models to develop expected outcomes and to determine the amount of capital necessary to support the transaction. In general the cover provided by XLRe is either on an excess of loss or quota share basis within the following guidelines:

- Third party liability coverage for up to $100 million.
- Directors and officers liability up to $75 million per claim.
- High excess property reinsurance for up to $50 million per occurrence.
- Financial reinsurance, credit enhancement, swaps and other collateralized transactions for up to $100 million in limits.

Presently, eighty percent of the portfolio consists of short tail business and is written on a guaranteed cost basis, loss sensitive rating approach or a combination of both.

A clash reinsurance policy covering all excess liability business written by X.L. and X.L.E. with limits of $100 million ultimate net loss each occurrence and in the aggregate excess of $150 million ultimate net loss each occurrence had been arranged. For the year ended November 30, 1994 the placement was 90.0 percent. Due to unacceptable renewal terms, this reinsurance policy was not renewed on December 1, 1994.

Property quota share reinsurance of 17.5% (subject to catastrophe occurrence limit restrictions) of the X.L. and X.L.E. property limits was purchased from two Bermuda based property reinsurers, effective April 1, 1994. The quota share was increased to 25% of the X.L. and X.L.E. property limits, effective April 14, 1995, with the additional cover provided by Mid Ocean Reinsurance Company, Ltd. ("MOR"), a wholly-owned subsidiary of Mid Ocean Limited ("MOCL"). All property reinsurers are rated, two having Standard & Poors ("S&P") ratings of A or higher and the reinsurer not rated by S&P having an A. M. Best rating of A-.

Effective December 1, 1995, X.L. and X.L.E. entered into a quota share reinsurance policy with five U.S. reinsurers and one non-U.S. reinsurer covering general liability risks only. Effective December 1, 1996, two additional reinsurers were added to the program, of which one is Risk Capital Reinsurance Company ("RCR"), a wholly-owned subsidiary of Risk Capital Holding, Inc. ("RCHI"). Under the terms of the policy, X.L. and X.L.E. cede 20% of risks with total limits up to $100 million and 25% of risks with total limits in excess of $100 million. The maximum amount recoverable from the reinsurers will be the ceded percentage of the original policy limit on a per occurrence basis, with an annual aggregate of 225% of the total premium ceded. No single reinsurer participates in excess of 23% of the quota share. With the exception of RCR, all the reinsurers are rated, of which the lowest as rated by S&P is A-.

With respect to employment practices liability cover, X.L. quota shares one third of the first $75 million to a U.S. insurer and cedes the remaining excess layer of $25 million to a Bermuda based insurer.

A quota share arrangement exists between X.L. and CIGNA based on pre agreed percentages by line of coverage for blended covers written through Risk Solutions. These percentages vary from 12.5% to 90%, but do not exceed X.L.'s normal capacity on individual lines of cover. X.L. may underwrite an account 100% without CIGNA participation.

2 *Significant Accounting Policies*

(a) Basis of Preparation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America. All material intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts in the financial statements for prior years have been reclassified to conform with the 1996 presentation. All share amounts have been adjusted for the one-for-one stock dividend paid to shareholders of record July 26, 1996.

(b) Premiums and Acquisition Costs

Premiums written are earned on a monthly pro-rata basis over the period the coverage is provided. Unearned premiums represent the portion of premiums written which is applicable to the unexpired terms of policies in force. Premiums written under the multi-year alternate rating methodology may be subject to a mandatory reinstatement premium in the event of a loss. An asset is accrued to reflect the obligation of the insured's reinstatement premium and the premium is earned in accordance with the "with or without" method; that is, the pricing of the premium is evaluated in terms of a no loss situation and the resultant premium is earned over the remaining term of the policy. The balance of the reinstatement premium is earned to the extent of the loss reaching the full policy limit; that is, in the event of a full limit loss the balance of the reinstatement premium together with any unearned premium of the underlying cover would be fully earned. Premiums written and unearned premiums are presented after deductions for reinsurance ceded to other insurance companies.

Acquisition costs which vary with and are primarily related to the acquisition of policies, primarily commissions paid to insurance brokers, are deferred and amortized over the period the premiums are earned. Future earned premiums and the anticipated losses and other costs related to those premiums are also considered in determining the level of acquisition costs to be deferred.

(c) Investments

Investments are available for sale and are carried at market value. The net unrealized appreciation or depreciation on investments is included as a separate component of shareholders' equity.

Short-term investments comprise investments with a maturity equal to or greater than 90 days but less than one year.

All investment transactions are recorded on a trade date basis. Realized gains and losses on sale of investments are determined on the basis of average cost or amortized cost. Investment income is recognized when earned and includes the amortization of premium and discount on fixed maturities and short-term investments.

(d) Foreign Currency Translation

The functional and reporting currency of the Company and its subsidiaries is U.S. Dollars. Unhedged monetary assets and liabilities in foreign currencies are translated at the exchange rate in effect at the balance sheet date with the resulting foreign exchange gains and losses recognized in income. Foreign exchange on hedged assets and liabilities and forward foreign exchange contracts hedging said assets and liabilities are deferred and included in shareholders' equity. Realized gains and losses on the maturity of these forward contracts are deferred and included in shareholders' equity until the corresponding asset is sold or liability settled. Revenue and expense transactions are translated at the average exchange rates prevailing during the year.

(e) Investment in Affiliates

The Company has investments in MOCL and RCHI. Both are carried on the equity basis. The Company owns 29.9% and 29.6% of the issued voting shares and 28.1% and 27.9% of the total issued shares of MOCL as at November 30, 1996 and 1995, respectively. Outstanding share purchase options if exercised would reduce the Company's ownership position to 29.6% and 29.3% of the issued voting shares and 25% and 24.8% of the total issued shares, as at November 30, 1996 and 1995, respectively. The Company, through its subsidiary XLRe, provides reinsurance cover to MOR, on an excess basis.

The Company owns 22.1% of the issued shares of RCHI. Outstanding share warrants if exercised would dilute the Company's ownership to 17.6%. RCHI commenced operations on November 6, 1995.

The Company owns 30% of Pareto Partners, a partnership engaged in the business of providing investment advisory and discretionary management services.

(f) Investment in Limited Partnerships

The Company has committed to invest in several limited partnerships as part of its overall corporate strategy. The primary purpose of these partnerships is to invest capital provided by the partners in various insurance and reinsurance ventures. The Company had invested $23.8 million and $10.1 million as at November 30, 1996 and 1995, respectively, with commitments to invest a further $41.2 million and $44.9 million respectively, over the next ten years. Any income or loss generated by the partnerships is not recorded until such time as it is allocated to the individual partners. During the years ended November 30, 1996 and 1995, there was no such income or loss recorded on these investments, however, the Company continually reviews the performance of the partnerships to ensure there is no decrease in the values of its investments. The Company is a limited partner and, as such, does not actively participate in the management of the partnerships.

(g) Losses and Loss Expenses

Unpaid losses and loss expenses includes reserves for unpaid reported losses and loss expenses and for losses incurred but not reported. The reserve for unpaid reported losses and loss expenses has been established by management in consultation with independent legal counsel and represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company.

The Company recognizes as a component of loss reserves, the loss experience accounts of insureds for policies written under the applicable multi-year alternate rating methodology. Such experience accounts are a percentage of premiums net of related losses paid. Interest is earned on liable amounts and charged to investment income. In the event the insured cancels the policy, the return of the experience account is treated as a commutation if previously notified of a loss, or as a return premium if there has been no loss notification.

The reserve for losses incurred but not reported has been estimated by management in consultation with independent actuaries and is based on loss development patterns determined by reference to the Company's underwriting practices, the policy form and the experience of the excess liability insurance industry.

Management believes that the reserves for unpaid losses and loss expenses are sufficient to pay any claims that may penetrate the minimum attachment point. However, there can be no assurance that losses will not exceed the Company's total reserves. The methodology of estimating the reserve is periodically reviewed to ensure that the assumptions made continue to be appropriate and any adjustments resulting therefrom are reflected in income of the year in which the adjustments are made.

(g) Statements of Cash Flows

For purposes of the statements of cash flows, cash equivalents include fixed interest deposits placed with a maturity of under 90 days when purchased.

(h) Income per Ordinary Share and Ordinary Share Equivalent

Income per ordinary share and ordinary share equivalent is based upon the weighted average number of shares outstanding using the modified treasury stock method for share options. There is no material difference between primary and fully diluted net income per ordinary share and ordinary share equivalent.

3 *Investments*

Net investment income is derived from the following sources *(U.S. dollars in thousands):*

	Year ended November 30,		
	1996	1995	1994
Fixed maturities, short-term investments and cash and cash equivalents	**$200,711**	$205,123	$180,276
Equity securities	**11,752**	10,001	13,976
Total investment income	**212,463**	215,124	194,252
Investment expenses	**13,865**	14,979	11,990
Net investment income	**$198,598**	$200,145	$182,262

The following represents an analysis of realized and the change in unrealized gains (losses) on investments *(U.S. dollars in thousands):*

	Year ended November 30,		
	1996	1995	1994
Realized gains (losses):			
Fixed maturities and short-term investments:			
Gross realized gains	**$103,830**	$176,518	$125,770
Gross realized losses	**(53,463)**	(145,737)	(236,478)
Net realized gains (losses)	**50,367**	30,781	(110,708)
Equity securities:			
Net realized gains	**155,845**	16,969	15,511
Net realized gain on sale of investment in affiliate	**-**	2,024	-
Net realized gains (losses) on investments	**206,212**	49,774	(95,197)
Change in unrealized gains (losses):			
Fixed maturities and short-term investments	**(58,654)**	183,627	(120,590)
Equity securities	**31,616**	154,298	(10,346)
Deferred gains on forward contracts	**418**	40,233	(43,638)
Investment portfolio of affiliates	**(239)**	12,560	(15,532)
Net change in unrealized (losses) gains on investments	**(26,859)**	390,718	(190,106)
Total realized and change in unrealized gains (losses) on investments	**$179,353**	$440,492	$(285,303)

The cost (amortized cost for fixed maturities and short-term investments), market value and related unrealized gains (losses) of investments are as follows *(U.S. dollars in thousands):*

	November 30, 1996			
	Cost or Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**
Fixed maturities:				
U.S. Government and Government agency	**$1,031,963**	**$10,063**	**$(8,566)**	**$1,033,460**
Corporate bonds	**1,340,845**	**33,303**	**(12,692)**	**1,361,456**
Non-U.S. Sovereign Government bonds	**439,607**	**15,352**	**(4,998)**	**449,961**
Total fixed maturities	**$2,812,415**	**$58,718**	**$(26,256)**	**$2,844,877**
Short-term investments:				
U.S. Government and Government agency	**$17,356**	**$29**	**$ -**	**$17,385**
Corporate bonds	**98,435**	**207**	**(27)**	**98,614**
Non-U.S. Sovereign Government bonds	**-**	**-**	**-**	**-**
Total short-term investments	**$115,791**	**$236**	**$(27)**	**$115,999**
Total equity securities	**$595,149**	**$231,158**	**$(14,257)**	**$812,050**
November 30, 1995				
Fixed maturities:				
U.S. Government and Government agency	$1,396,367	$54,086	$(610)	$1,449,843
Corporate bonds	682,712	29,367	(3,555)	708,524
Non-U.S. Sovereign Government bonds	264,064	14,563	(2,524)	276,103
Total fixed maturities	$2,343,143	$98,016	$(6,689)	$2,434,470
Short-term investments:				
U.S. Government and Government agency	$36,118	$42	$ -	$36,160
Corporate bonds	35,778	161	(2)	35,937
Non-U.S. Sovereign Government bonds	10,800	-	(204)	10,596
Total short-term investments	$82,696	$203	$(206)	$82,693
Total equity securities	$652,847	$198,568	$(13,283)	$838,132

The portfolio of fixed maturities as of November 30, 1996 and 1995 matures as follows *(U.S. dollars in thousands):*

	November 30, 1996		November 30,1995	
	Cost or Amortized Cost	**Gross Unrealized Gains**	Gross Unrealized Losses	Market Value
Due after 1 through 5 years	**$945,746**	**$952,360**	$851,888	$868,268
Due after 5 through 10 years	**989,547**	**1,002,937**	421,772	438,497
Due after 10 through 15 years	**81,736**	**87,003**	83,567	93,169
Due after 15 years	**528,678**	**537,639**	543,250	584,644
Mortgage-backed investments	**266,708**	**264,938**	442,666	449,892
	$2,812,415	**$2,844,877**	$2,343,143	$2,434,470

4 *Losses and Loss Expenses*

Unpaid losses and loss expenses net of reinsurance recoveries comprise *(U.S. dollars in thousands):*

	Year ended November 30		
	1996	1995	1994
Reserve for reported losses	**$786,515**	$811,327	$685,244
Reserve for losses incurred but not reported	**1,248,759**	1,098,575	974,854
Reserve for loss expenses	**17,378**	9,596	5,336
Unpaid losses and loss expenses	**$2,052,652**	$1,919,498	$1,665,434

Losses and loss expenses incurred comprise *(U.S. dollars in thousands)*:

Loss payments	**$299,492**	$184,575	$132,608
Loss expense payments	**3,150**	3,929	6,136
Change in unpaid losses and loss expenses	**102,715**	252,418	268,428
Losses and loss expenses incurred	**$405,357**	$440,922	$407,172

Reconciliation of unpaid losses and loss expenses:

	Year ended November 30,		
	1996	1995	1994
Unpaid losses and loss expenses at beginning of period	**$1,919,498**	$1,665,434	$1,359,701
Losses and loss expenses incurred in respect of losses occurring in:			
Current year	**390,892**	440,394	368,209
Prior years	**14,465**	528	75,469
Total	**405,357**	440,922	443,678
Interest incurred on experience reserves	**1,752**	1,646	799
Portfolio transfer	**28,687**	-	-
Losses and loss expenses paid in respect of losses occurring in:			
Current Year	**3,177**	134	42
Prior years	**299,465**	188,370	138,702
Total	**302,642**	188,504	138,744
Unpaid losses and loss expenses at end of period	**$2,052,652**	$1,919,498	$1,665,434

Losses and loss expenses incurred for prior years during 1996, 1995 and 1994 are not attributable to any single event or group of related events, but the development of losses at a higher rate than the expected loss emergence pattern.

5 Contingencies and Commitments

On November 19, 1996 the Company established a $200 million revolving line of credit with Mellon Bank.

The Company has also contracted to letters of credit totalling $108.1 million through Mellon Bank on behalf of Venton Underwriting Agency, Ltd. ("VUA"). The Trident Limited Partnership, L.P. ("Trident") an investment fund of which the Company is a 7.5% limited partner, and RCHI are invested in Venton Holdings, Ltd., which owns VUA. All fees and drawdowns are covered by Trident through its ability to call on capital commitments from the partners.

Both credit facilities are collateralized by the Company's investment portfolio.

6 Share Capital

Authorized and Issued

The authorized share capital is 999,990,000 ordinary voting shares of a par value of $0.01 each.

On September 30, 1994, the Company's Board of Directors authorized the Company to repurchase four million shares as circumstances warrant. As of November 30, 1994, the Company had repurchased 1.1 million shares at a cost of $21.8 million. The balance of the repurchase program was completed by June 23, 1995, at a cost of $69.2 million. On June 23, 1995, the Company's Board of Directors authorized the repurchase of a further ten million shares as circumstances warrant. This repurchase program was completed by October 11, 1995, at a cost of $270.0 million. On December 1, 1995, the Company's Board of Directors authorized the Company to purchase six million of its shares as circumstances warrant. This program was completed on July 8, 1996 at a cost of $207.7 million. On June 28, 1996, the Company's Board of Directors authorized the Company to repurchase a further 5 million shares. As at November 30, 1996 the Company had purchased 2.2 million shares at a cost of $74.8 million.

Following is a summary of shares issued and outstanding *(in thousands):*

	Year ended November 30,		
	1996	1995	1994
Balance, beginning of year	**94,550.8**	107,050.0	109,314.2
Exercise of options	**600.9**	254.6	0.8
Issuance of restricted shares	**224.0**	102.8	5.6
Repurchase of treasury shares	**(8,205.1)**	(12,856.6)	(2,270.6)
Balance, end of year	**87,170.6**	94,550.8	107,050.0

Options

Employees and Directors also hold options, which are exercisable at prices between $5 and $35.56 per share, within a period of ten years from the date of the award. Total options exercisable at November 30, 1996, 1995 and 1994 were 2,112,148, 2,228,582 and 1,890,284, respectively.

Following is a summary of outstanding options *(number of shares in thousands):*

	Year ended November 30,					
	1996		1995		1994	
	Number of Shares	**Exercise Price Range per Share**	Number of Shares	Exercise Price Range per Share	Number of Shares	Exercise Price Range per Share
Outstanding at beginning of year	**2,228**	**$5.00-$27.07**	1,890	$5.00-$22.75	1,344	$5.00-$22.75
Granted	**488**	**$31.19-$35.56**	640	$18.75-$27.07	602	$19.31-$21.69
Exercised	**(601)**	**$5.00-$22.75**	(254)	$5.00-$22.75	(2)	$15.50
Repurchased and canceled	**(3)**	**$18.75-$21.69**	(48)	$18.75-$22.75	(54)	$15.50-$22.75
	2,112	**$5.00-$35.56**	2,228	$5.00-$27.07	1,890	$5.00-$22.75

Voting

EXEL's Articles of Association restrict the voting power of any person to less than 10% of total voting power.

7 *Contributed Surplus*

Under the laws of the Cayman Islands, the use of EXEL's contributed surplus is restricted to the issuance of fully paid shares (i.e. stock dividend or stock split) and the payment of any premium on the redemption of ordinary shares.

8 *Deferred Compensation*

Restricted stock awards to certain officers and key employees are at the discretion of the Compensation Committee of the Board of Directors under the terms of the 1991 Performance Incentive Program. These shares contain certain restrictions, for a five-year period, relating to, among other things, forfeiture in the event of termination of employment and transferability. As the shares are issued, deferred compensation equivalent to the difference between the issue price and the estimated fair value on the date of the grant is charged to shareholders' equity and subsequently amortized over the five-year restriction period. Awards under the 1991 Performance Incentive Program were made in the 1996 and 1995 years of 120,500 shares and 98,000 shares, respectively.

9 *Premiums*

Premiums comprise *(U.S. dollars in thousands):*

	Year ended November 30,		
	1996	1995	1994
Gross premiums written	**$729,446**	$698,020	$638,294
Reinsurance premiums ceded	**(132,344)**	(3,683)	(10,307)
Net premiums written	**597,102**	694,337	627,987
Change in unearned premiums	**(79,210)**	(136,288)	(106,810)
Net premiums earned	**$517,892**	$558,049	$521,177

10 *Reinsurance*

The Company is contingently liable with respect to reinsurance ceded to the extent that any reinsurance company fails to meet its obligation to the Company.

11 *Dividends*

In 1996, four regular quarterly dividends were paid, one of $0.20 per share to shareholders of record at February 2, and three of $0.25 per share to shareholders of record at April 15, July 12 and October 11.

In 1995, four regular quarterly dividends were paid, three of $0.17 per share to shareholders of record at February 2, April 17 and July 7, and one of $0.20 per share to shareholders of record at October 12.

In 1994, four regular quarterly dividends were paid, three of $0.15 per share to shareholders of record at January 27, April 8 and July 8, and one of $0.17 per share to shareholders of record at October 13.

12 *Taxation*

Under current Cayman Islands law, EXEL will not be obliged to pay any taxes in the Cayman Islands on its income or gain until May 2006 pursuant to the provisions of the Tax Concessions Law, as amended.

Bermuda presently imposes no income, withholding or capital gains taxes. As a result, X.L., X.L.I. and XLRe are exempted until March 2016 from any such taxes pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, and Amended Act 1987.

X.L.I.B. qualifies as an exempted company under the provisions of the International Business Companies Act 1991-24 and as such is subject to a maximum tax rate in Barbados of 2.50%.

X.L.E. has been approved to carry on business in the International Services Centre in Dublin. Under Section 39 of the Finance Act 1990, X.L.E. is entitled to benefit from a 10% tax rate on profits (including investment income) until the year 2005.

13 *Foreign Exchange*

At November 30, 1996, 1995 and 1994, forward foreign exchange contracts having notional principal amounts of $683.3 million, $127.2 million and $961.1 million, respectively, were outstanding. At November 30, 1996, the market value of the outstanding forward foreign exchange contracts was $686.4 million. Contracts with a notional principal amount of $182.6 million and a market value of $182.4 million directly hedge the Company's foreign currency assets and are not held for trading purposes. Changes in the value of these contracts due to currency movements offset the foreign exchange gains and losses of the foreign currency assets being hedged. Effective 1996 the balance of the contracts are utilized to reduce the foreign exchange risk on foreign currency equities, but due to the inability to specifically identify and match the hedges to the assets, the contracts are treated as speculative and their value is included in realized gains and losses.

The Company is exposed to credit risk in the event of non-performance by the other parties to the contracts, however, the Company does not anticipate non-performance. The difference between the notional principal amounts and the associated market value is the Company's maximum credit exposure. This is included in net unrealized appreciation (depreciation) of investments in shareholders' equity and amounted to $3.1 million for the year ended November 30, 1996.

Net unrealized foreign currency (losses) gains of nil, ($3.1) million and $4.1 million are included in net investment income for the years ended November 30, 1996, 1995 and 1994, respectively.

14 *Financial Instruments*

In accordance with its current investment guidelines, the Company may invest up to 30% of its investment portfolio in equity securities. During 1996 these guidelines were amended so that this exposure could be obtained by direct holdings of publicly traded equities and by investing in a synthetic equity portfolio. In this synthetic equity portfolio, S&P 500 Index futures are held with an exposure approximately equal in amount to the market value of underlying assets held in this fund. As at November 30, 1996, the portfolio held $248.2 million in exposure of S&P 500 Index futures together with fixed maturities, short-term investments and cash amounting to $247.6 million. The value of the futures is updated daily with the change recorded in income as a realized gain or loss. For the year ended November 30, 1996, net realized gains from index futures totalled $37.4 million.

15 *Statutory Financial Data*

Under The Insurance Act, 1978, amendments thereto and related regulations of Bermuda (the "Act"), X.L. and XLRe are required to prepare statutory financial statements and to file in Bermuda a statutory financial return. The Act also requires these companies to maintain certain measures of solvency and liquidity during the year.

X.L.'s statutory capital and surplus and the minimum required by the Act were as follows *(U.S. dollars in thousands):*

	Year ended November 30,		
	1996	1995	1994
Statutory capital and surplus	**$872,586**	$807,264	$676,298
Minimum statutory capital and surplus required by the Act	**$302,802**	$332,089	$163,699

XLRe's statutory capital surplus and minimum required by the Act for the year ended November 30, 1996 were $271.4 million and $100 million, respectively.

Effective June 1995, the Insurance Act Amendment 1995 was enacted. As a result, X.L. was classified as a Class 4 insurer which increases its minimum solvency requirements. One such requirement will only allow the payment of dividends in any one financial year in excess of 25% of the prior year's statutory capital and surplus if the insurer's directors attest that such dividends will not cause the insurer to fail to meet its relevant margins. X.L., being a heavily capitalized company, was not affected by this change. X.L. could legally have paid dividends in the amount of approximately $1.1 billion, $930 million and $1.1 billion at November 30, 1996, 1995 and 1994, respectively. XLRe was classified as a Class 4 reinsurer upon its incorporation.

Net income of X.L. calculated under Bermuda statutory accounting regulations was $380.5 million, $628.9 million and $183.3 million for the years ended November 30, 1996, 1995 and 1994, respectively. The principal differences between statutory capital and surplus and net income of X.L. and shareholders' equity and net income of EXEL relate to deferred acquisition costs and the accounting for the investments of X.L. in its subsidiaries.

X.L.E. is permitted to cover risks throughout the European Community (subject to certain restrictions) pursuant to the "Third Directive" relating to non-life insurance. Its head office is in the Republic of Ireland and it is subject to regulation under Irish regulatory authority. The principal legislation and regulations governing the insurance activities of Irish insurance companies are the Insurance Acts 1909 to 1990 (the "Irish Acts") and a comprehensive network of regulations and statutory provisions empowering the making of regulations of which the most relevant are the European Communities (Non-Life Insurance) Regulations, 1976, the European Communities (Non-Life Insurance Accounts) Regulations, 1995, the European Communities (Non-Life Insurance) Framework Regulations, 1994 and related administrative rules (the ''Irish Regulations").

X.L.E.'s insurance activities are subject to extensive regulation in the Republic of Ireland, principally under the Irish Acts and Irish Regulations, which impose on insurers headquartered in the Republic of Ireland minimum solvency and reserve standards and auditing and reporting requirements and grant to the Minister for Enterprise and Employment (the "Irish Minister") wide powers to supervise, investigate and intervene in the affairs of such insurers. The Irish Minister's powers and functions are exercised through the medium of the Department of Enterprise and Employment.

16 Unaudited Quarterly Financial Data

The unaudited quarterly financial data for 1996 and 1995 follows *(U.S. dollars in thousands, except per share amounts):*

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Net premiums earned	**$130,258**	**$131,952**	**$124,537**	**$131,145**
Net investment income	**47,773**	**50,249**	**50,310**	**50,266**
Realized gains (losses)	**136,059**	**16,020**	**(4,603)**	**58,736**
Equity in net income of affiliate	**16,113**	**14,282**	**13,081**	**15,773**
Total revenues	**$330,203**	**$212,503**	**$183,325**	**$255,920**
Income before income tax expense	**$208,326**	**$89,481**	**$64,938**	**$134,373**
Net income	**$207,089**	**$88,986**	**$64,545**	**$133,693**
Net income per share and share equivalent	**$2.17**	**$0.95**	**$0.72**	**$1.52**
1995				
Net premiums earned	$130,746	$135,145	$139,219	$152,939
Net investment income	50,170	56,797	39,085	54,093
Realized gains (losses)	(6,874)	14,890	26,162	15,596
Equity in net income of affiliate	5,053	15,545	18,449	12,027
Total revenues	$179,095	$222,377	$222,915	$234,655
Income before income tax expense	$57,179	$95,063	$93,319	$88,957
Net income	$56,882	$94,531	$92,903	$88,482
Net income per share and share equivalent	$0.53	$0.88	$ 0.91	$0.92

17 Accounting Standards

The Financial Accounting Standards Board has issued Statement No.123, “Accounting for Stock-Based Compensation”, effective for fiscal years beginning after December 15, 1995, recognizing awards granted in the first fiscal year after December 15, 1994. This Statement defines a fair value based method of accounting for stock options or similar equity instruments in which an entity acquires goods or services by issuing same. Entities can either adopt the new method or continue to use APB Opinion No. 25, providing pro forma disclosure of net income and earnings per share as if the fair value based method had been adopted. The Company intends to follow the latter alternative, providing the necessary disclosure for the fiscal year ending 1997. (The presentation of 1996 pro forma disclosure needs only to be provided whenever financial statements for said fiscal year are presented for comparative purposes with financial statements for later fiscal years.)

18 *Investment in Affiliate*

Summarized condensed financial information of Mid Ocean Limited, a 28% owned affiliate, which is accounted for by the equity method, is as follows:

Income Statement Data

	Year ended October 31,		
	1996	1995	1994
Net premiums earned	**$436,097**	$379,390	$301,017
Net investment income	**83,261**	73,835	51,457
Net realized gains (losses) on sale of investments	**2,126**	1,476	(18,196)
Net income	**211,644**	182,935	90,978
Company's share of net income	**$59,249**	$51,074	$25,028

Balance Sheet Data

	October 31,	
	1996	1995
Cash, investments and accrued interest	**$1,539,259**	$1,275,588
Other assets	**483,440**	379,920
Total assets	**$2,022,699**	$1,655,508
Reserves for losses and loss expenses	**422,252**	328,990
Reserves for unearned premiums	**287,494**	200,859
Other liabilities	**195,754**	156,865
Shareholders' equity	**1,117,199**	968,794
Total liabilities and shareholders' equity	**$2,022,699**	$1,655,508
Company's share of shareholders' equity	**$314,256**	$273,867

The Company received dividends from its affiliate of $13.0 and $7.4 million for the years ended November 30, 1996 and 1995, respectively.

Supplementary Financial Information

X.L. Europe Insurance ~ Balance Sheets

As at November 30, 1996 and 1995 *(Expressed in thousands of U.S. Dollars)*

	1996	1995
Assets		
Investments:		
Fixed maturities, at market value (amortized cost: 1996, $166,553; 1995, $137,595)	**$170,881**	$141,160
Short-term investments, at market value (amortized cost: 1996, $7,328; 1995, $7,332)	**7,521**	7,128
Total investments	**178,402**	148,288
Cash and cash equivalents	**52,940**	43,883
Accrued investment income	**3,594**	3,423
Deferred acquisition costs	**6,669**	5,570
Prepaid reinsurance	**46,270**	38,954
Premiums and accounts receivable	**35,472**	19,966
Amount due from affiliate	**-**	3,181
Other assets	**1,943**	1,852
Total assets	**$325,290**	$265,117
Liability and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss expenses	**$70,927**	$49,532
Unearned premiums	**67,016**	57,192
Premiums received in advance	**24**	390
Unearned commission	**7,937**	6,516
Amount due to affiliate	**10,900**	-
Accounts payable and accrued liabilities	**5,164**	3,928
Reinsurance premium payable	**2,518**	-
Total liabilities	**$164,486**	$117,558
Commitments and contingencies		
Shareholders' Equity:		
Ordinary shares (par value $1.00; authorized, 100,000,000 shares; issued and fully paid, 100,000,000 shares; November 30, 1996 and 1995, respectively)	**$100,000**	$100,000
Net unrealized appreciation on investments	**7,793**	6,228
Retained earnings	**53,011**	41,331
Total shareholders' equity	**$160,804**	$147,559
Total liabilities and shareholders' equity	**$325,290**	$265,117

Supplementary Financial Information

X.L. Europe Insurance ~ Statements of Income and Retained Earnings

For the Years Ended November 30, 1996, 1995 and 1994 *(Expressed in thousands of U.S. Dollars)*

	1996	1995	1994
Revenues:			
Net premiums earned	**$24,495**	$25,423	$15,938
Net investment income	**10,442**	10,055	8,890
Realized gains (losses) on investments	**3,130**	3,483	(1,802)
Commission earned	**10,545**	10,566	8,698
Total revenues	**$48,612**	$49,527	$31,724
Expenses:			
Losses and loss expenses	**21,054**	20,909	12,894
Acquisition costs	**8,764**	9,435	8,607
Administration expenses	**5,714**	4,869	3,576
Total expenses	**35,532**	35,213	25,077
Income before income tax expense	**13,080**	14,314	6,647
Income tax expense	**1,400**	1,448	696
Net income	**$11,680**	$12,866	$5,951
Retained earnings - beginning of year	**41,331**	28,465	22,514
Retained earnings - end of year	**$53,011**	$41,331	$28,465

EXEL Limited
X.L. Insurance Company, Ltd.

DIRECTORS

Robert Clements	(2) (3)	Chairman, Marsh & McLennan Risk Capital Corp.
Michael P. Esposito, Jr.	(3) (4)	Chairman, EXEL Limited
Gilbert Gould	(1)	Manager of Financial Services, Southern California Edison Company
Ian R. Heap	(1) (2)	Former Chairman, EXEL Limited
John Loudon	(3) (4)	Chairman, Caneminster Limited
Brian M. O'Hara	(3)	President and Chief Executive Officer, EXEL Limited
Robert S. Parker	(3) (4)	Dean, School of Business Administration, Georgetown University
Cyril Rance, MBE, JP	(1)	Retired Insurance Executive
Alan Z. Senter	(4)	Chairman, Senter Associates
John T. Thornton	(1) (4)	Executive Vice President and Chief Financial Officer, Norwest Corporation
Ellen E. Thrower	(1)	President, The College of Insurance
John Weiser	(4)	Senior Vice President and Director, Bechtel Group, Inc.

Committees of the Boards

(1)........ Audit
(2)........ Compensation
(3)........ Nominating and Corporate Governance
(4)........ Finance

SENIOR OFFICERS

EXEL Limited

Brian M. O'Hara	President and Chief Executive Officer
Robert J. Cooney	Executive Vice President
Brian G. Walford	Executive Vice President, Chief Financial Officer and Secretary
Gavin R. Arton	Senior Vice President, Investor Relations and Corporate Planning Officer
Paul S. Giordano	Senior Vice President, General Counsel
Christopher V. Greetham	Senior Vice President, Chief Investment Officer

X.L. Insurance Company, Ltd.

Brian M. O'Hara	Chairman and Chief Executive Officer
Robert J. Cooney	President and Chief Operating Officer
Brian G. Walford	Executive Vice President and Secretary
James J. Ansaldi	Senior Vice President
Keith Fisher	Senior Vice President
James Miller	Senior Vice President
Richard R. Morano	Senior Vice President
Michael A. Siese	Senior Vice President and Chief Financial Officer

X.L. Reinsurance Company, Ltd.

Brian M. O'Hara	Chairman, President and Chief Executive Officer
Brian G. Walford	Deputy Chairman
K. Bruce Connell	Executive Vice President, Chief Underwriting Officer
David Kaplon	Senior Vice President
William Thornhill	Senior Vice President

X.L. Europe Insurance

Brian M. O'Hara	Chairman
Patrick J. Tolan	Managing Director
J. Walker Rainey	Chief Financial Officer
Dermot O'Donohoe	Chief Underwriting Officer

Corporate Information

Annual Meeting

The annual meeting of shareholders of EXEL Limited will be held on Friday, April 11, 1997 at the Corporate Offices of the Company, Hamilton, Bermuda at 8:30 a.m. local time.

Common Stock Data

The Company's common stock, $0.01 par value, was first listed on the New York Stock Exchange on July 19, 1991 under the symbol XL.

The following table sets forth the high and low closing sales prices per share of the Company's Ordinary Shares, as reported on the New York Stock Exchange Composite Tape for the four fiscal quarters of 1995 and 1994.

	1996		1995	
	High $	**Low $**	High $	Low $
First Quarter	**35.938**	**29.813**	21.500	18.500
Second Quarter	**36.375**	**34.125**	23.688	21.438
Third Quarter	**36.688**	**33.063**	27.500	23.313
Fourth Quarter	**40.125**	**31.875**	31.375	26.750

As of November 30, 1996, the approximate number of record holders of Ordinary Shares was 172.

Transfer Agent and Registrar

Mellon Bank N.A., One Mellon Bank Center, Pittsburgh, Pennsylvania 15258-0001, U.S.A.

Form 10-K

Form 10-K is filed with the Securities and Exchange Commission. Copies are available without charge by writing to: Investor Relations, EXEL Limited, P.O. Box HM 2245, Hamilton HM JX, Bermuda.

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Legal Counsel

Maples & Calder, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

Cahill Gordon & Reindel, Eighty Pine Street, New York, NY 10005, U.S.A.

Registered Office

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