EXEL Limited 1997 ANNUAL REPORT

Our STRATEGY is to focus on our CUSTOMERS and meet their CHANGING risk management NEEDS.

EXEL

We are COMMITTED to INCREASING shareholder value by enhancing the quality of our EARNINGS.

SOLVING THE PUZZLE

Business risk problems, like complex jigsaw puzzles, cannot be solved until all of the pieces have been identified and fit into place. In 1997, we reviewed our capabilities and acquired new skills to enhance our ability to solve our customers' expanding risk needs.

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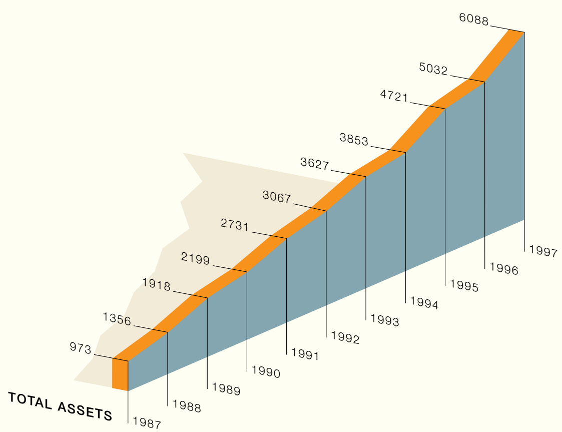

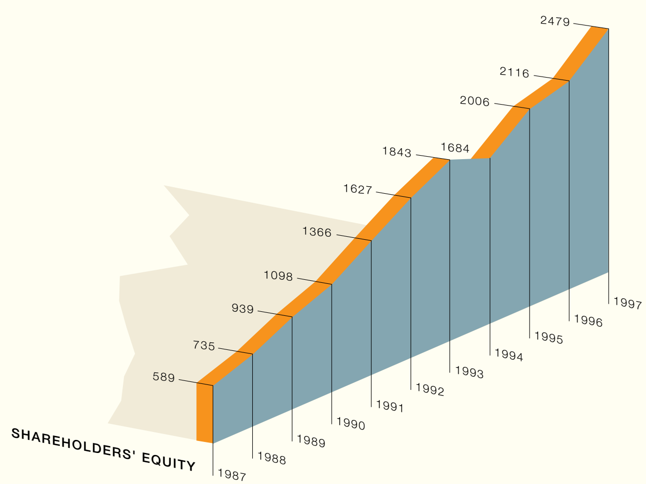

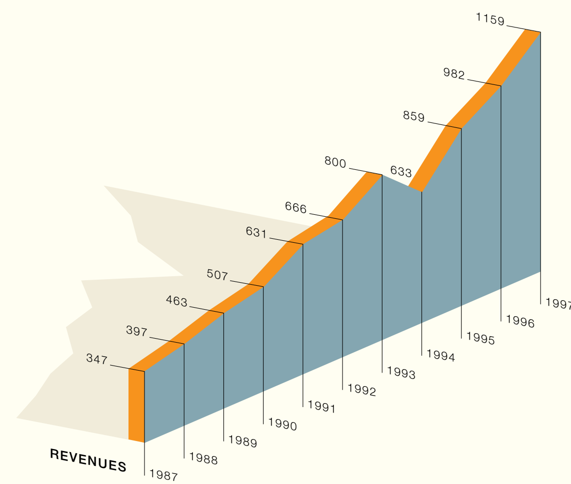

Report to Shareholders

1997 was another record year for EXEL Limited. The Company achieved new levels of revenues, net income, total assets and shareholders' equity again this year. Revenues passed a billion dollars for the first time, reaching nearly $1.2 billion, increasing 18 percent from 1996's $982 million. Net income increased to $677 million, up nearly 37 percent from last year's $494 million. Operating income, excluding realized investment gains, grew 18 percent to $341 million from last year's $288 million. Total assets exceeded $6 billion for the first time and shareholders' equity reached $2.5 billion. Reflecting our commitment to manage the Company for total return, return on shareholders' equity was 29 percent, the highest level in the Company's history.

On a per employee basis, these record amounts are even more impressive when you consider that the

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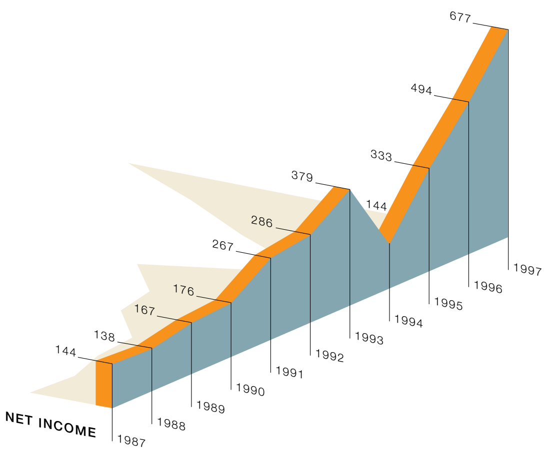
Company had only 185 employees worldwide at the end of 1997. On that basis, revenues per employee were $6.3 million, net income was $3.7 million and operating income per employee was $1.8 million. Assets per employee at the end of 1997 were $32.9 million and shareholders' equity $13.4 million. Leveraging our intellectual capital has always been a distinguishing feature of the Company.

The Company was clearly at the top of its game in 1997. What better time to examine ourselves and apply what we have learned over the last eleven years to ensure XL's continued superior performance in an ever-changing business environment. To help achieve this result, we undertook a year long review of all aspects of the organization's businesses and activities. The photographs featured in this annual report reflect meetings held over the past year, involving all levels of employees. This strategic review identified the challenges facing our industry today, recognized the need to reorganize the structure of our core businesses and identified new areas of opportunity for the Company.



As with jigsaw puzzles, no business problem can be solved until all the pieces have been identified and put in place. We are putting in place the key pieces needed to complete the complex puzzles that solve the risk management needs of our customers in a timely manner. Hence, the theme of this year's annual report – *Solving the Puzzle* – illustrated throughout the front section of this report, by the building of a three-dimensional jigsaw puzzle of Big Ben, the world's best known time piece.

SUSTAINABLE COMPETITIVE ADVANTAGE

In developing the strategic insights emerging from our review, we drew heavily on the sustainable advantages inherent in being based in Bermuda. These include both a low tax and favorable regulatory climate and the ability to attract and develop top professional and management talent while maintaining low overhead ratios. The former, when effectively leveraged, translates into the ability to offer broader and more efficient financial services to large multi-national institutions and corporations. The latter provide the intellectual capital that supplies continuous improvement in our results.

We expect to deliver strong results although, as happened this past year, the changing environment and resulting new products may cause fluctuation in some of the components of the Company's top line revenues. All of our efforts focus on increasing shareholder value by enhancing the quality of our earnings, through actions that translate into increased cash flow and return from our expanding investment portfolio.

Our strategy, verified by the review undertaken

The earliest documented jigsaws were designed for educational purposes and made as "dissected maps" by John Spilsbury, Drury Lane, London c. 1762.

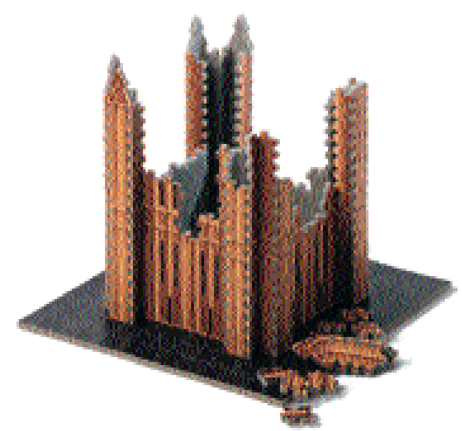


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Photo captions: STANDING: PAUL S. GIORDANO, L. TO R: DWAYNE T. S. HUNT, MARY R. SAMUELS, BRIAN M. O'HARA, LISA HARVEY SWAN, PATRICE A. FRAY, MICHAEL S. MORGAN

this year, is to focus on our customers and meet their changing risk management needs. At EXEL, we embrace the definition of risk management that has broadened over the years to include all aspects of the protection of corporate earnings and assets. The Company has been building its capabilities beyond simple risk transfer resulting from fortuitous loss from physical damage or third party liability.

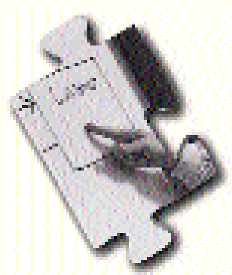
FOCUSED ON OUR CUSTOMERS

EXEL began a transition in 1997, our eleventh year. The Company was created by its customer base in 1986 to focus on providing large dedicated capacity along product lines. General Liability and Directors and Officers Liability were our initial products, followed by Errors and Omissions, Property, Multi-Line Reinsurance, Marine, Employment Practices Liability, Financial Products and Political Risk. Guided by our strategic studies, we are reorganizing our intellectual and financial capital to focus on our core customers' needs by specific industry segments. Our brokers are a vital piece of this puzzle and a key component of our strategy.

We view each customer industry segment and individual customer within the segment as valuable pieces of the EXEL puzzle. By creating enduring, efficient and custom-tailored risk transfer programs for our customers, they can build proprietary resources through our expanding of financial and business risk capabilities.

We recently formed dedicated customer business units (CBUs), to concentrate a mix of skills and sophistication on reducing customers' extraneous

FOCUS > Our strategy is to focus on our customers and their risk management needs, which have broadened to include all aspects of the protection of corporate assets.



focus

risk, allowing them to focus on their principal business goals. The CBUs offer our core customers a broad range of insurance and financial products to provide solutions to their risk management needs.

Our XL Risk Solutions initiative, begun nearly two years ago, spearheaded this approach. This initiative pioneered multi-disciplinary, multi-year, programs created for our customers, providing both catastrophe and financial protection. An example of our increasing capability to reduce fluctuations in our customers' non-core financial risks is foreign currency protection, provided in combination with the expertise of our affiliate Pareto Partners.

DEVELOPING CAPABILITIES THAT DIFFERENTIATE

The convergence between the insurance, banking and investment industries is a critical part of the puzzle of building shareholder value at EXEL. Our Pareto Partners affiliation allows us to extend a leading proprietary currency and investment expertise to our customers which can be blended into a comprehensive multi-line risk solution program. We have recently assembled a team of individuals with currency management experience to develop our broadening capability in financial risk management products and services for our customers.

As the insurance and reinsurance industries move toward more commodity-like behavior, we will continue to differentiate, emphasizing the rare combination of our capabilities in dealing with risk and unique track record in meeting our obligations, as illustrated by our payment of over $1.4 billion of claims with no significant coverage litigation or arbitration. We expect to leverage the goodwill we have created with our brokers and customers to expand our lines of business per customer.

BUILDING FOR THE FUTURE

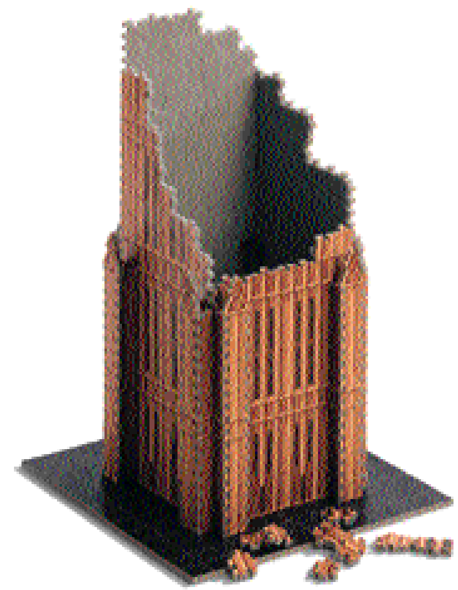
Access to distribution is another important ingredient for future success. During the year, we increased our involvement with Venton Underwriting Agencies in London, a Lloyd's managing agency in which we have had an indirect equity position through our investment in the Trident Fund. X.L. Europe Insurance commenced underwriting on a consortium basis with Venton, through Lloyd's Underwriting Syndicate No. 1207, managed by Alec Sharp. This enabled us to access professional lines liability business, notably financial institutions, which has been traditionally placed at Lloyd's. Subsequently, we made a 20 percent direct investment in Venton and have representation on their Board of Directors.

Recognizing an increase in demand for political risk insurance, we were instrumental in forming Bermuda-based Sovereign Risk Insurance Limited, to issue subscription policies on our behalf. We were fortunate to attract a talented team to run this operation.

The acquisition of GCR (Holdings) Limited in June brought a valuable piece to our puzzle solution as it expanded our penetration, through its principal subsidiary, Global Capital Re, into the Property Catastrophe market place. It has added valuable underwriting expertise in this speciality area and is proving to be accretive from the very beginning.

In September, we contributed $75 million to form Latin American Reinsurance Company, Ltd. and become its majority shareholder, reflecting the significant

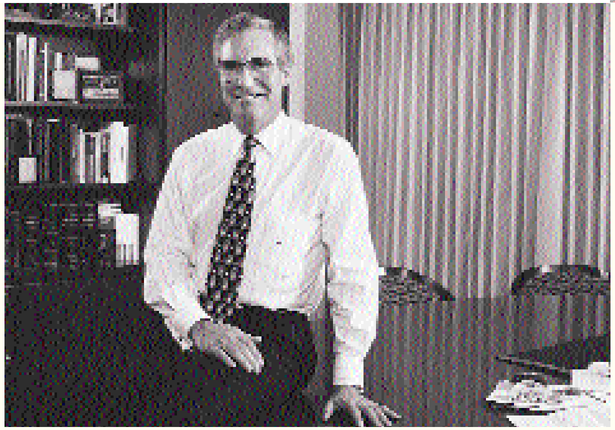
Smuzzles were first marketed in 1978. Exceptionally difficult to complete, they were made up of 168 identical laser-cut pieces, with only one correct solution.



economic growth in Latin America and the lack of specialized reinsurers in the region.

Our recently concluded search for a new Chief Financial Officer focused on attracting a professional with a proven track record in significant mergers and acquisitions and leading edge convergence financial products.

Another piece adding to our ability to solve the puzzle, is our recent acquisition of Folksamerica General Insurance Company, formerly Great Lakes America Reinsurance Company from Folksamerica Reinsurance Company. This acquisition provides an unencumbered platform to develop and grow a presence in the middle or commercial markets which have not traditionally conducted business in Bermuda. We consider ourselves fortunate to have acquired this capability at little expense, with no legacy of past liabilities or non-strategic business or employees. This



BRIAN M. O'HARA,
EXEL LIMITED, PRESIDENT AND CHIEF EXECUTIVE OFFICER

CAPABILITIES > As the insurance and reinsurance industries move toward more commodity-like behavior, we will continue to differentiate, emphasizing the rare combination of our capabilities.

capabilities

Photo caption: L. TO R: LESLEEN SWAN, KEITH FISHER, LEEANN NEARON, CHRISTOPHER V. GREETHAM, DIANA DOWNS, GAVIN R. ARTON, BRIAN M. O'HARA.

platform also broadens our ability to make business acquisitions that are more suitably run in the United States while preserving our advantage of leveraging the cash flow from these businesses from our Bermuda base.

CAPITAL MANAGEMENT

A highlight in this year's success has been the exceptional gains generated as a result of our strategy of investing for total return. In 1997 we implemented a new asset allocation strategy and turned over most of the Company's investment managers. We believe our investment managers have the ability to continue building shareholder value at an above-average rate without increased volatility. With the recent turmoil in some international markets, we are pleased to note that our portfolios have no material direct exposure to those Asian markets currently experiencing difficulty.

The dividend was increased twice during the year, reflecting our confidence in our earnings stream and willingness to share it with our owners. In January, we increased the quarterly dividend by 28 percent to $0.32 per share, from $0.25. Again, in September, a further $0.08, or 25 percent was added to the quarterly payout, bringing the quarterly rate to $0.40 per share. This brings our payout ratio, on an annual basis, in line with our goals for an optimal dividend payment level, to more than 40 percent of 1997's operating income per share.

The financial capabilities of the Company were recognized during the year by two major rating agencies. We were pleased that Standard & Poor's upgraded the group's claims paying rating to AA from AA- and A.M. Best Co. also moved us up to A+ (Superior) from A (Excellent). We value these ratings and work closely with both organizations to preserve them.

OUR PEOPLE AND OUR FUTURE

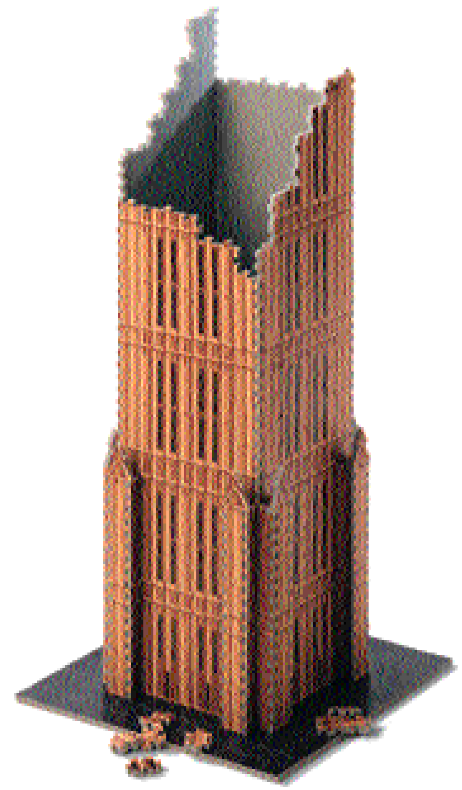
Brian G. Walford, who has been with the Company from its earliest days, retired on December 31, 1997. We wish him well and thank him for his years of dedicated service. During the year we welcomed Robert V. Hatcher to the Board. Bob brings a wealth of industry experience having served as Chairman and Chief Executive Officer of Johnson & Higgins before his retirement from that organization. I would like to express my gratitude to our Chairman, Mike Esposito for his contributions this year, in particular his counsel and energy during the acquisition of GCR Holdings Ltd. Also, I would like to thank our staff for their efforts, particularly in the current competitive market. They remain the key to our success and rival any in the business for their dedication and professionalism.

In 1998 we see ourselves well positioned to implement our new vision to be the premier provider of strategic financial risk solutions to specific global markets. Our new mission is to apply intellectual and financial capital to assure the economic vitality of our customers and enhance their competitive positions. Achieving these goals can be very complex, but I believe we have identified all of the pieces of the puzzle. We are well on our way to fitting them together to solve the risk needs of our customers and achieve a superior result for our shareholders and stakeholders.

EXEL — *Solving The Puzzle.*

Brian M. O'Hara
President & Chief Executive Officer

Billed as the world's most difficult jigsaw, Jackson Pollock's "Convergence" had hundreds of Americans struggling to assemble it in 1965.



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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 35 through 55 of this Annual Report.

FINANCIAL HIGHLIGHTS

Net income was a record $677 million, or $7.84 per share, increasing from $494 million, or $5.39 per share, in 1996. (All 1996 per share amounts have been adjusted to reflect the one for one stock dividend paid in July 1997.)

Operating income, excluding realized investment gains and losses, was $341 million, or $3.95 per share, compared with $288 million, or $3.14 per share, in 1996, an increase per share of 26 percent.

Realized investment gains were $336 million, or $3.89 per share, in 1997, compared with $206 million, or $2.25 per share, in 1996.

Revenues exceeded $1 billion for the first time, reaching $1.2 billion, or $13.42 per share, in 1997, rising 18 percent from $982 million, or $10.70 per share, in 1996.

Gross premiums in 1997 were $441 million declining from $729 million in 1996. After adjustments, principally multi-year premiums, gross annual premiums were $553 million, compared with $565 million a year ago. The declines in 1997 premiums primarily reflect the impact of competition on pricing, as well as moving up the attachment point on general liability programs and the cancellation of certain specialty reinsurance programs during 1997.

EXPERIENCE > Building on the firm foundations of past and present successes, we recently formed dedicated customer business units (CBUs) to focus our experience and skills on reducing our customers' diverse business risks.

Photo caption: L. TO R. SHANE O. SWAN, ROBERT J. COONEY, (XL PRESIDENT AND CHIEF OPERATING OFFICER), WILLIAM M. THORNHILL, ELIZABETH (BETH) A. PIGGOTT, DANNETTE PENGELLY, RICHARD R. MORANO, DEREK RATTERAY

Net earned premiums in 1997 were $541 million, an increase of 4 percent from $518 million a year ago. After adjusting for the impact of the placement of an excess of loss reinsurance treaty protecting the general liability book of business in 1997 and in 1996 for reinstatement premiums, earned premiums were $540 million in 1997 compared with $497 million in 1996, an increase of 9 percent.

The Company believes that the change in net earned premiums 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.

The renewal retention ratio for the entire book in 1997 was 82 percent, compared with 87 percent in 1996. The retention ratio was impacted by the acquisition or merger of the Company's insurance clients and from the intense competition facing the traditional lines of business.

The combined ratio for 1997 was 85.8 percent, compared with 93.6 percent in 1996. The loss and loss expense ratio was 67.6 percent in 1997 and 78.3 percent in 1996, with the underwriting expense ratios for the respective periods being 18.2 percent and 15.3 percent. The combined ratio is 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 in 1986, the Company has reported an underwriting profit in each fiscal year.

Total assets increased to $6.1 billion at November 30, 1997 from $5.0 billion a year ago. Shareholders' equity rose to $2.5 billion at November 30, 1997 from $2.1 billion at the end of fiscal 1996. Fully diluted book value per share climbed to $29.33 at November 30, 1997 from $24.21 a year ago. Strong performance in the investment markets, particularly the equity portfolios, contributed to the increases. Share repurchase remains an important part of our capital management strategy to manage the Company's capital for total return. Since the inception of its repurchase program in 1993, the Company has spent $828 million to repurchase 27.6 million of its shares, or 25 percent of the shares outstanding before the program was initiated.

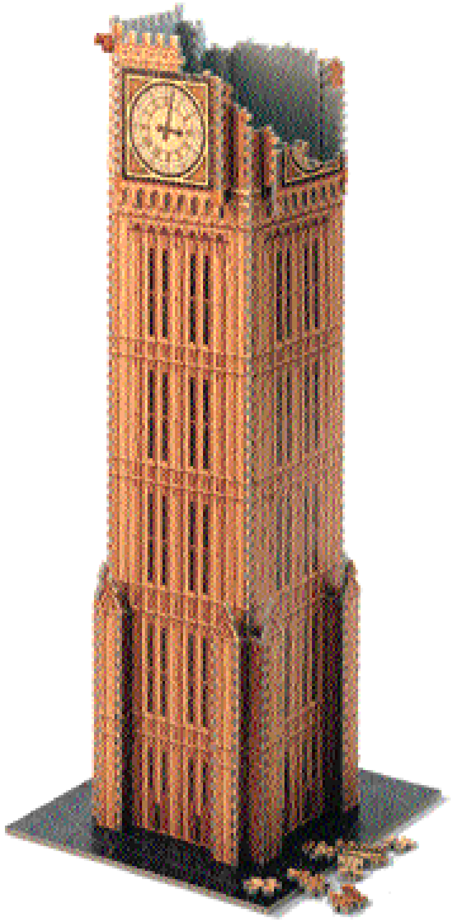
GENERAL LIABILITY

Gross premiums written in general liability were $253 million in 1997, compared with $432 million in 1996. The market for general liability insurance has become increasingly competitive over the past year, with the lowest price being the principal determining factor. The U.S. and other international markets, supported by favorable reinsurance pricing and terms, have made it increasingly challenging to retain insureds or attract new business.

Multi-year premiums are an important part of the Company's strategy to attract and keep customers for the long-term. These policies, including MAXL products, represent approximately 25 percent of the general liability base.

Multi-year premiums, which are required to be booked in full at inception, result in an apparent overstatement of annual premium volume, making

The world's largest jigsaw with the most pieces, was made in London in 1990. It had 187,220 pieces and measured 9,905.5 ft²



comparisons of gross premiums written difficult. After adjusting for the impact of multi-year premiums, annual gross premiums in 1997 were $279 million versus $374 million in 1996.

In order to retain its customers, the Company has determined that it is appropriate to move up on the insurance programs of its insureds. By attaching at a higher level, moving further away from loss, the Company believes that it has reduced its exposure to loss, while retaining important relationships with its long-term clients. The Company's adjusted general liability renewal retention ratio was 83 percent in 1997, compared with 90 percent in 1996.

The average limit written in general liability in 1997 was $86 million, compared with $80 million in 1996, while the average attachment point moved up to $104 million from $79 million. The significant upward shift in average attachment point has lowered the

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VISION > We are well positioned to implement our new vision: to be the premier providers of strategic risk solutions to specific global markets.

vision

Photo captions: L. TO R. MICHAEL A. SIESE, KAREN RADKE, JAMES A. ANSALDI, ROBERT J. COONEY, COTINA FORTH-ALBUOY, ERIC M. L. SMITH, PAMELA J. MARTIN
L. TO R. JAMES K. MILLER, ROBERT P. KLEPPER, SHERRON M.A. WILLIAMS, PHILIP J. GRIERSON

exposure relativity of this book to 0.83 from 1.00 in 1996.

Exposure relativity is a 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 over the last two years in an effort to reduce 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. On September 1, 1997, X.L purchased an excess of loss reinsurance treaty further protecting the general liability book of business from net losses.

PROFESSIONAL LIABILITY

Professional liability, Errors & Omissions (E&O) gross premiums written increased modestly to $58 million from $57 million in 1996. Annual gross premiums written, after adjusting for multi-year premiums, were $54 million in 1997, compared with $52 million in 1996.

The average E&O limit written in 1997 was $31 million, compared with $30 million in 1996. The average attachment point for E&O in 1997 was $69 million versus $72 million a year ago.

Professional liability coverage for lawyers and other consulting and service firms, including insurance brokers and insurance companies, continues as the largest segment of this book. X.L. continues to be the dominant player in this business in Bermuda.

DIRECTORS & OFFICERS LIABILITY

Gross premiums written for Directors & Officers (D&O) were $23 million in 1997, decreasing from $27 million in 1996, reflecting a lower level of multi-year premiums in 1997. Annual gross premiums written, after adjusting for multi-year premiums, were $20 million versus $23 million in 1996. Underwriting discipline has enabled the Company to maintain a stable book of business in D&O in a continuing competitive market.

In 1997, the average D&O limit written was $20 million compared with $16 million a year ago. The average attachment point in 1997 was $64 million, up from $46 million in 1996, reflecting the Company's higher attachment points, on certain clients' programs, than in earlier periods.

EMPLOYMENT PRACTICES LIABILITY

Employment Practices Liability (EPL) which was launched in April 1996 grew considerably in 1997, with gross premiums written increasing to $12 million from $3 million in its initial year. The Company has received a considerable number of submissions for this coverage, which offers companies insurance protection for employment related claims.

PROPERTY

After a year of significant growth in 1996, the Company's property book experienced significant competitive pressure in 1997. Gross premiums written in Property were $38 million in 1997, compared with $41 million in 1996. After multi-year adjustments, annual premiums were $27 million, up modestly from $26 million in 1996.

The world's largest jigsaw measured 11,302.2 ft^2, but had only 2,250 pieces.

New business written as monoline property as a result of the X.L. Risk Solutions initiative contributed to the stability of this line in 1997.

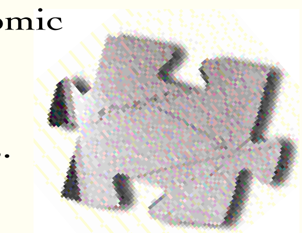
The average attachment point for property risks in 1997 was $126 million, versus $197 million in 1996, with the average limit in 1997 being $42 million compared with $63 million a year ago.

A number of accounts were lost on the basis of extended coverages offered by competitors at no cost and overall pricing reduced on major accounts. Reinsurance capacity is readily available for those companies willing to write property business at what the Company believes are below profitable rates.

Effective December 1, 1997, X.L. has expanded its property capability to write this line of business on a quota share basis.

1997

MISSION > We intend to apply intellectual and financial capital to assure our customers' economic vitality and enhance their competitive positions.



mission

Photo captions: L. TO R. SONJA R. WARNER, K. BRUCE CONNELL (XL GLOBAL RE PRESIDENT AND CHIEF OPERATING OFFICER), STEPHEN S. OUTERBRIDGE, ROBERT L. NASON, JAMES MCNICHOLS, BRENTON G.S. TUCKER, GAIL P. MARTIN
L. TO R. WILLIAM G. FANNING, MELODY WAKEFIELD, PAUL C. BENEVIDES, CLIVE R. TOBIN

X.L. RISK SOLUTIONS

In 1996, the Company commenced a coordinated initiative with CIGNA Property and Casualty to provide combined capacity on a multi-year basis for traditional insurance coverages. The target market for X.L. Risk Solutions and CIGNA Risk Solutions is large and medium size companies that are trying to simplify and streamline the risk transfer process. Programs are typically custom designed to meet the specific needs of each customer.

In 1997, X.L. Risk Solutions wrote $34 million of gross premiums, compared with $25 million in 1996.

REINSURANCE ASSUMED

The Company's assumed reinsurance operations achieved another year of significant contribution to the Company's growth and spread of risk.

In May, the acquisition of GCR Holdings Limited (GCR) was announced and the tender offer was completed in June. GCR's principal focus has been in the property catastrophe business. Their operations have been fully assimilated into the Company's reinsurance operations and the combined organization was renamed, effective September 15, 1997, X.L. Global Reinsurance Company, Limited, to reflect the combined worldwide capabilities of both companies. On a pro forma basis, assuming the Company had owned GCR for the entire year, X.L. Global Re wrote more than $200 million in annual premiums in 1997.

During 1997, the Company cancelled and re-issued a significant amount of premium related to certain catastrophe related specialty reinsurance contracts – known as Triplicat policies – which had a negative impact on reported premiums but no impact on the reported earnings of the reinsurance operations. As a result, gross reinsurance premiums assumed in 1997 were $23 million compared with $145 million in 1996.

After adjustment for the Triplicat contracts and multi-year premiums, annual gross premiums written increased 40 percent to $144 million in 1997 from $103 million in 1996.

The majority of X.L. Global Re's business is written based upon actuarial models which develop expected outcomes and determine the capital necessary to support each transaction. Financial reinsurance and finite programs are also considered on an individual basis.

With more than $500 million of capital and the backing of the EXEL group resources, X.L. Global Re is a formidable competitor in the reinsurance market. X.L. Global Re has a contact office in London and a representative office in Cologne, Germany.

FOREIGN EXCHANGE (F/XL$_{sm}$)

During 1997, the Company developed a new product to manage foreign exchange risk for its customers utilizing the capabilities of X.L.'s affiliate, Pareto Partners.

F/XL$_{sm}$ is a customized basket option approach designed to provide protection of core currency exposures at less than capital market option prices.

Designed to be sold to X.L.'s customers on a stand alone basis or in conjunction with their other risk management needs, a significant amount of interest has been generated in the F/XL$_{sm}$ product in the relatively short time since its introduction.

The most expensive jigsaw on record was custom-made for Stave puzzles. It had 2,640 pieces and cost $8,680.

EUROPEAN OPERATIONS

X.L.'s European operations are conducted by X.L. Europe Insurance (XLE), from its office in Dublin, which was established in 1991. XLE serves as the Company's principal platform for excess business produced in the European Union. These markets have become increasingly competitive over the last year, particularly the Lloyd's and London Company markets where market share appears more compelling than underwriting discipline, particularly on North American and European accounts. The Company's contact office in Australia continued to establish X.L.'s name in the ASEAN region, although new business remains elusive in the international marketplace.

In 1997, XLE's gross premiums written decreased to $55 million from $92 million a year ago. After adjusting for multi-year premiums, annual gross premiums written were $64 million in 1997 compared

1997

PERFORMANCE > The Company is proud of its record of claims payments. Claims handling is considered a core competency, as virtually all losses have been paid without major dispute or arbitration.

performance

Photo captions: L. TO R. PATRICK J. TOLAN, JOAN SHARKEY, DAVID GALLAGHER, FIONA MULDOON, ELAINE McCABE
L. TO R. FIONA MULDOON, WALKER RAINEY, KEN LANE, GHRAINNE O'DONOGHUE, BARRY MARREN, FIONA MARRY, COLIN SHAW

with $79 million in 1996. Premiums in 1997 were also impacted by declines in XLE's share of premiums from the First Line program, which issues certificates of financial responsibility (COFRs) for vessels entering US waters. This program was changed from a quota share placement to an excess of loss basis, resulting in a premium reduction from $14 million in 1996 to $6 million in 1997. Despite the competitive environment and declines in premium volume, a respectable 80 percent of XLE's accounts were renewed in 1997 compared with 88 percent in 1996 and 83 percent in 1995.

CLAIMS

Total reserves increased to a record $2.3 billion in 1997 from $2.1 billion in 1996. Case reserves for reported losses and loss expenses were $820 million versus $804 million in 1996, while reserves for incurred but not reported (IBNR) losses increased to $1.4 billion at the end of 1997 from $1.2 billion in 1996. Loss and loss expense payments in 1997 totalled $267 million, compared to $303 million in 1996. Net additions to reserves for unpaid losses and loss expenses in 1997 were $134 million, compared with $133 million a year ago.

Loss reserves are established based upon the Company's historical experience and by several actuarial reserve estimating techniques. The Company is proud of its record of claims payments, which total more than $1.4 billion since inception. Claims handling is considered a core competency as virtually all losses have been paid without major dispute or arbitration.

REINSURANCE CEDED

Since December 1, 1995, X.L. has had in effect a quota share reinsurance policy covering its general liability policies for 20 percent of risks with total limits of up to $100 million and for 25 percent of those risks with total limits in excess of $100 million. This policy limits the Company's aggregate liability for the policies covered to a maximum of $112.5 million per claim, subject to an annual aggregate of 225 percent of the total premium ceded.

With effect from September 1, 1997, the Company entered into an excess of loss reinsurance contract covering general liability risks. This policy reinsures the Company for $80 million ultimate net loss for each occurrence in excess of a per occurrence retention, subject to an annual aggregate retention and a maximum annual aggregate recovery of $250 million.

X.L's property book is protected by a quota share reinsurance agreement with respect to 25 percent of the Company's property policy limits (subject to catastrophe occurrence limit restrictions). The Company cedes one third of the first $75 million of its employment practices liability limits to a U.S. insurer pursuant to a quota share reinsurance policy and cedes the $25 million layer in excess of $75 million to another insurer.

MARKETING

X.L.'s underwriting activities are conducted by its offices in Bermuda and Dublin, Ireland. The majority of the Company's business is produced by brokers located in Bermuda and the Republic of Ireland.

The consolidation of the major broking houses that has taken place over the past few years has led to a closer relationship with a smaller number of brokers. The Company has taken this into consideration during its strategic review and believes that this consolidation may help its efforts to cross sell its products to its customers.

Marketing efforts during the past year have been focused on X.L.'s strategic review, with marketing staff providing much of the support for this initiative. Specific research was conducted to determine appropriate segmentation of the Company's business along specific customer or industry groups which have been allocated to the new customer business units. Additional data mining was undertaken to determine other areas of opportunity.

An increasing emphasis was placed on electronic data transmission, including further development of the group's web site and major progress on communication links between major broking houses and X.L.

MANAGEMENT INFORMATION SYSTEMS

New emphasis was placed on information systems during 1997, reflecting the increased needs of an ever expanding electronic work place. Imaging continues an important discipline in an industry where large amounts of paper are generated.

The Company's underwriting, accounting and financial systems have undergone a complete rewrite of the programs that support their activities. Systems personnel are addressing the Company's Millennium or Year 2000 computer challenge. X.L. has appointed a team to address all of the issues facing the entire organization and it is anticipated that there will not be significant problems associated with the Company's systems. However, some of the Company's customers and suppliers may not be as fortunate and steps are being taken to protect our systems from any impact from third-party issues related to the Year 2000.

INVESTMENTS

During 1997, the Company replaced most of its outside portfolio managers to improve overall performance of the investment portfolio. The current investment strategy is to maximize investment income by investing on a total return basis. To achieve this the Company has structured a high-quality, diversified investment portfolio, at the same time focusing on preserving principal and maintaining liquidity.

Investment income in 1997, before realized gains, was $217 million, compared with $199 million in 1996. Realized capital gains in 1997 were a record $336 million versus $206 million in the prior year. Total invested assets, not including the Company's equity investments in affiliates, reached a record $4.3 billion at the end of 1997, increasing 13 percent from $3.7 billion in 1996.

Summary of Selected Financial

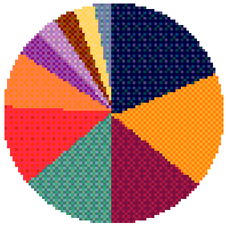
Gross premiums written Net premiums written Net premiums earned
Underwriting profit
Net investment income Realized capital gains (losses)
Revenues
Operating income
Net income
Operating ratios; Loss ratio Expense ratio Combined ratio
Weighted average shares outstanding
Operating income per share
Realized gains (losses) per share
Net income per share
Total investments
Total assets
Reserves for reported losses and lae
IBNR Total reserves
Total liabilities
Shareholders' equity Return on equity
Per share; Cash dividend Book Value Market price @ November 30

Information *(in thousands of U.S. dollars, except per share amounts and ratios)*

1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
$441,290	$729,446	$698,020	$638,294	$564,376	$459,745	$406,085	$394,460	$338,116	$317,250	$295,237
316,626	597,102	694,337	627,987	530,885	434,505	398,775	387,291	333,497	313,044	295,237
540,653	517,892	558,049	521,177	456,815	409,057	388,261	360,636	326,166	311,444	281,113
76,773	33,059	33,525	32,786	37,163	29,742	24,902	30,751	30,328	50,970	81,807
216,576	198,598	200,145	182,262	163,816	172,411	171,579	141,010	133,728	91,008	63,815
335,939	206,212	49,774	(95,197)	160,885	84,927	71,486	4,327	1,553	(6,622)	(2,569)
1,159,026	981,951	859,042	633,270	799,737	666,395	631,326	506,832	462,784	397,040	346,648
341,022	288,101	283,024	239,151	218,331	201,197	195,480	172,158	165,337	144,838	146,911
676,961	494,313	332,798	143,954	379,216	286,124	266,966	176,485	166,890	138,216	144,342
67.6%	78.3%	79.0%	78.1%	77.3%	77.3%	77.4%	78.0%	72.4%	66.7%	52.5%
18.2	15.3	15.0	15.6	14.6	15.4	16.2	13.5	18.3	16.4	18.4
85.8	93.6	94.0	93.7	91.9	92.7	93.6	91.5	90.7	83.1	70.9
86,373	91,731	103,438	108,676	111,226	114,158	110,556	108,012	108,042	108,300	113,090
$3.95	$3.14	$2.74	$2.20	$1.96	$1.76	$1.77	$1.59	$1.53	$I.34	$1.30
$3.89	$2.25	$0.48	($0.88)	$I.45	$0.75	$0.65	$0.06	$0.05	($0.01)	$0.04
$7.84	$5.39	$3.22	$1.32	$3.41	$2.51	$2.42	$I.65	$I.58	$I.33	$I.34
$4,254,668	$3,772,976	$3,355,295	$2,943,712	$3,040,012	$2,639,648	$2,489,412	$1,878,868	$1,614,333	$1,218,150	$764,710
6,088,462	5,031,538	4,721,466	3,853,152	3,626,996	3,067,328	2,731,134	2,199,303	1,918,413	1,355,978	972,791
862,999	850,337	821,925	690,580	551,201	331,629	184,444	180,680	100,782	363	-
1,479,255	1,248,759	1,098,575	974,854	808,500	837,374	772,900	618,542	515,829	380,743	173,542
2,342,254	2,099,096	1,920,500	1,665,434	1,359,701	1,169,003	957,344	799,222	616,611	381,106	173,542
3,609,332	2,915,500	2,718,773	2,168,759	1,783,902	1,440,016	1,364,938	1,100,899	979,775	621,315	383,609
2,479,130	2,116,038	2,006,133	1,684,393	1,843,094	1,627,312	1,366,196	1,098,404	938,638	734,663	589,182
29.5%	24.0%	18.0%	8.2%	21.9%	19.1%	21.7%	17.3%	19.9%	20.9%	25.0%
$1.36	$0.95	$0.71	$0.62	$0.54	$0.36	$0.61	$0.15	$0.12	-	-
$29.37	$24.27	$21.22	$15.73	$16.86	$14.87	$15.48	$12.61	$10.79	$8.44	$6.74
$61.50	$38.88	$31.19	$18.75	$21.69	$22.75	$15.50	-	-	-	-

EXEL Products

General Liability



Business Mix

- ¥ 19% PHARMACEUTICAL
- ¥ 17% INDUSTRIAL
- ¥ 14% OIL & GAS
- ¥ 14% CHEMICAL
- ¥ 12% OTHER
- ¥ 8% RAIL
- ¥ 4% CONSUMER
- ¥ 3% PROPERTY
- ¥ 3% AUTO
- ¥ 3% UTILITIES
- ¥ 3% CONSTRUCTION

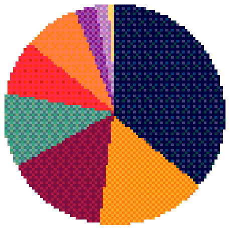
Description

- ¥ 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 20 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).
- ¥ 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 specified minimum attachment.
- ¥ Coverage disputes settled by London arbitration.
- ¥ Perpetual policies with annual aggregate limit.
- ¥ Multi-year coverage available.

MAXL

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

Professional Liability



Business Mix

- ¥ 36% LAWYERS E&O
- ¥ 16% MISCELLANEOUS D&O
- ¥ 15% MISCELLANEOUS E&O
- ¥ 11% INSURANCE BROKERS E&O
- ¥ 8% INSURANCE COMPANIES E&O
- ¥ 8% FINANCIAL INSTITUTIONS D&O
- ¥ 3% UTILITIES D&O
- ¥ 2% CHEMICAL/ PHARMACEUTICAL D&O
- ¥ 1% INDUSTRIAL MANUFACTURING D&O

Description

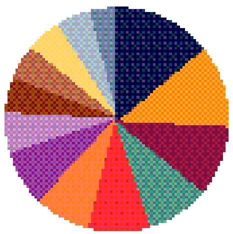
E&O

- ¥ Policy covers wrongful acts and resultant punitive damages for certain classes of professionals, including law firms, management consultants, 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.
- ¥ London arbitration.
- ¥ Stand alone claims made and reported policy form: a following form policy is available for all classes of business.
- ¥ Punitive damages covered.

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).
- ¥ Coverage on a claims made and reported basis for a designated period.
- ¥ Policy generally adapts the terms, conditions and exclusions of underlying/primary coverage.
- ¥ Alternative rating methodology available.
- ¥ No excluded class of business.

Property



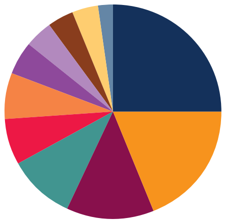
Business Mix

- ¥ 14% ELECTRONICS
- ¥ 12% MANUFACTURING
- ¥ 10% MISCELLANEOUS
- ¥ 9% REAL ESTATE
- ¥ 9% MINING
- ¥ 8% GOVERNMENT/MUNICIPALS
- ¥ 8% PULP & PAPER MILLS
- ¥ 6% OIL & GAS
- ¥ 5% STEEL
- ¥ 5% UTILITIES
- ¥ 5% METAL WORKING
- ¥ 5% CHEMICAL
- ¥ 4% OTHER

Description

- ¥ Quota share excess property coverages available for large commercial and industrial accounts on a global basis.
- ¥ Basic excess capacity is $100 million, plus $10 million for California and Japan earthquake.
- ¥ Minimum attachment point dependent on risk class and quality except 2% of total insured value (TIV) for wind and 5% 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.
- ¥ All risk classes of business underwritten.
- ¥ Net line orientation.
- ¥ Available as direct insurance or reinsurance as required by program structure and with proper security.
- ¥ Multi-year, non-cancelable, finite/funding, Single Aggregate Limit with discounted premium over multi-years (MAXL) options are available.
- ¥ Quota share programs are subject to claims cooperation agreements. Claims disputes on excess policies are subject to London arbitration.
- ¥ Premium is due on or before inception date.
- ¥ Annual premiums commensurate with occupancy, exposure and loss experience.

Employment Practices Liability



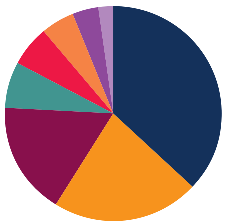
Business Mix

- 25 % RETAIL
- 19 % OIL & GAS
- 13 % MANUFACTURING
- 10 % AUTO
- 7% ENERGY
- 7% HIGH TECH
- 5% FINANCIAL SERVICES
- 4% TRANSPORT
- 4% ENTERTAINMENT
- 4% MISC.
- 2% UTILITY

Description

- The world's first single, stand-alone insurance program offering employers $100 million in protection against the cost of claims resulting from employee lawsuits.
- 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 $1million retention.
- 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.

X.L. Risk Solutions



Business Mix

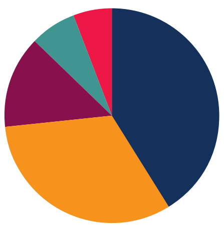
- 37% CHEMICAL
- 22% INDUSTRIAL/MEDICAL
- 17% RAIL
- 7% OIL
- 6% PHARMACEUTICAL
- 5% UNIVERSITIES
- 4% OTHER
- 2% PUBLISHING

Description

- X.L. Risk Solutions is 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 based on common interests and mutual commitment.
- Minimum annual premium Primary – $3 million (excluding Workers Compensation) Excess – $1 million.
- 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).

Reinsurance Assumed

XL GLOBAL RE WRITTEN PREMIUM BY LINE
AS AT NOVEMBER 30, 1997 US$ (MILLIONS)



Business Mix

- 41% RISK
- 32% SATELLITE
- 14% CLASH
- 7% PRO RATA
- 6% CATASTROPHE

* Includes GCR only from June 12, 1997

Description

- Coverages offered primarily by X.L. Global Reinsurance Company, Ltd. separately capitalized with more than $500 million of paid in surplus.
- Emphasis on technical risk assessment and pricing; management of aggregate exposures.
- Capacity is available for most classes of non-life reinsurance.
- Non-marine offered on an excess of loss or quota share basis up to $25 million per occurrence.
- Property catastrophe, per risk and pro rata coverages up to $25 million per program.
- Marine reinsurance on a per event and/or per risk basis up to $3 million per program available.
- Individually negotiated, customized contracts generally up to $100 million per program offered for specialty, finite and financial risks.
- Specialty reinsurance programs available for multi-years and multi-line treaties on experience account basis.

Other features include:
blended programs combining finite approach for self-insured or uninsurable risks with significant risk transfer or traditional lines; loss portfolio transfers; and, tax efficient funding and stabilization structures for balance sheet and income statement protection.

Foreign Exchange Protection (F/XL$_{sm}$)

Description

- Introduced in December 1997, F/XL$_{sm}$ is a customized basket option approach designed to provide protection of core current exposures at less than capital market option prices.
- Pareto Partners, a London-based investment management partnership, affiliated with XL, acts as an investment advisor to XL in connection with F/XL$_{sm}$.
- Offers lower hedging costs than comparable capital market option products.
- May be purchased alone or integrated with other products and services offered by XL.
- One contract to manage a basket of exposures over multiple time periods.
- Typical F/XL$_{sm}$ contract period, one year.
- Currency exposure coverage of up to $1 billion per client.
- The F/XL$_{sm}$ contract may be adjusted and/or canceled. Additional fees may be incurred.
- Contract based on the Master Agreement (Multi-Currency Cross Border) developed by the International Swaps and Derivatives Association (ISDA).

Financial Graphs

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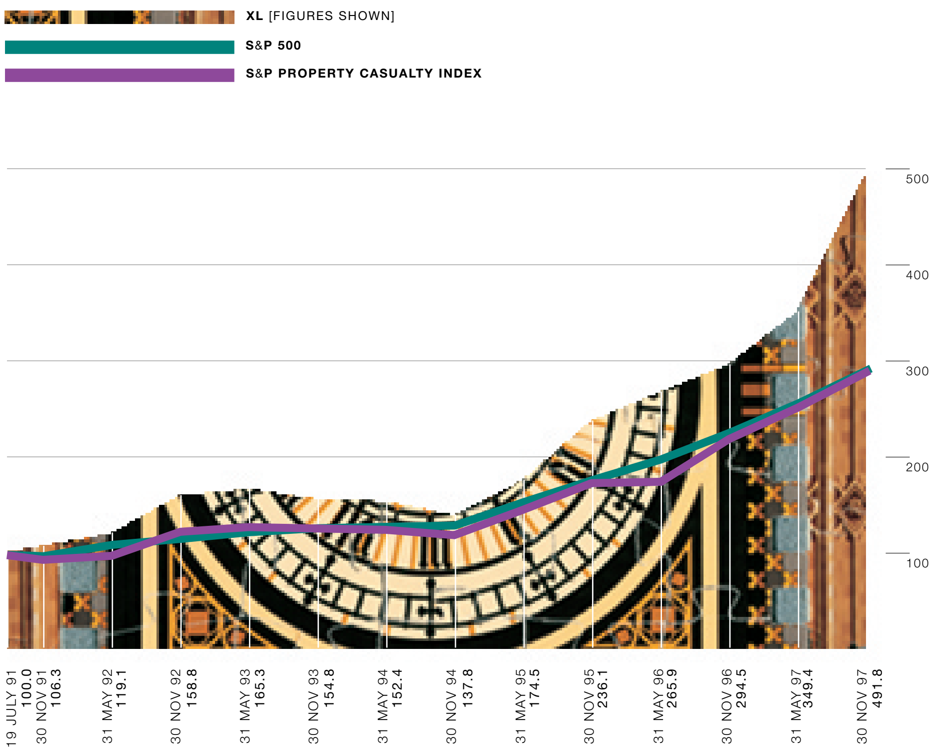
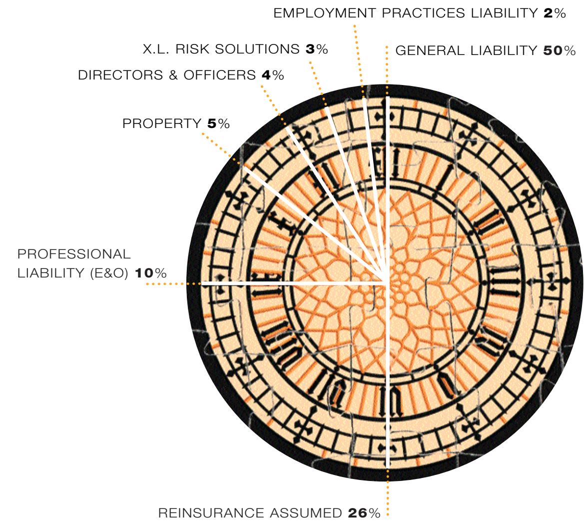
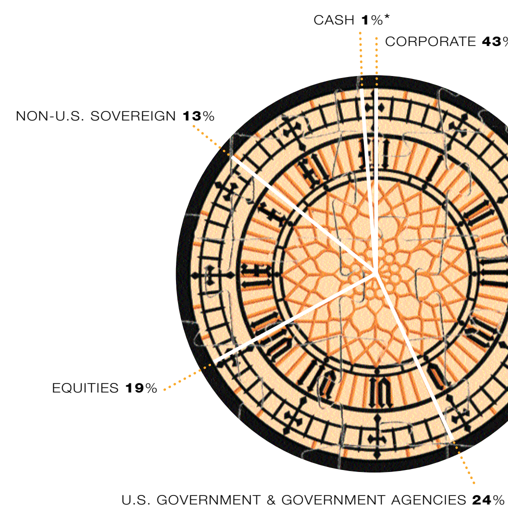
Cumulative Total Shareholder Return



Business Mix



Investment Asset Mix



* net of pending trades

Financial Contents

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 35 to 55 in this Annual Report.

(in thousands of U.S. dollars, except per share amounts and ratios)	**1997**	1996	1995	1994	1993
Income Statement Data:					
Gross premiums written	**$441,290**	$729,446	$698,020	$638,294	$564,376
Net premiums written	**316,626**	597,102	694,337	627,987	530,885
Net premiums earned	**540,653**	517,892	558,049	521,177	456,815
Net investment income	**216,552**	198,598	200,145	182,262	163,816
Realized gains (losses)	**335,939**	206,212	49,774	(95,197)	160,885
Equity in net income of affiliate	**65,882**	59,249	51,074	25,028	18,221
Losses and loss expenses	**365,325**	405,357	440,922	407,172	353,256
Acquisition costs and administration expenses	**98,665**	79,476	83,602	81,219	66,396
Interest expense	**7,176**	-	-	-	-
Amortization of intangible assets	**5,844**	-	-	-	-
Income before minority interest and income tax expense	**682,016**	497,118	334,518	144,879	380,085
Net income	**676,961**	494,313	332,798	143,954	379,216
Net income per share *(1) (2)*	**$7.84**	$5.39	$3.22	$1.32	$3.41
Weighted average shares outstanding *(2)*	**86,373**	91,731	103,438	108,676	111,226
Cash dividends per share *(2)*	**$1.36**	$0.95	$0.71	$0.62	$0.54
Balance Sheet Data:					
Total investments	**$4,254,668**	$3,772,976	$3,355,295	$2,943,712	$3,040,012
Cash and cash equivalents	**394,599**	252,734	673,433	456,176	264,484
Investment in affiliates	**517,396**	414,891	351,669	230,852	195,485
Total assets	**6,088,462**	5,031,538	4,721,466	3,853,152	3,626,996
Unpaid losses and loss expenses	**2,342,254**	2,099,096	1,920,500	1,665,434	1,359,701
Shareholders' equity	**2,479,130**	2,116,038	2,006,133	1,684,393	1,843,094
Book value per share *(2)*	**$29.37**	$24.27	$21.22	$15.73	$16.86
Fully diluted book value per share *(2)*	**$29.33**	$24.21	$21.11	$15.73	$16.81
Operating Ratios:					
Loss and loss expense ratio	**67.6%**	78.3%	79.0%	78.1%	77.3%
Underwriting expense ratio	**18.2**	15.3	15.0	15.6	14.6
Combined ratio	**85.8**	93.6	94.0	93.7	91.9

(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 one for one stock dividend paid to shareholders of record on July 26, 1996.

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

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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 on pages 35 to 55 in this Annual Report.

Results of Operations for the Years Ended November 30, 1997, 1996 and 1995

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

Table I

	Year ended November 30,					
	1997		1996		1995	
	(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	**$441,290**	**(39.5)%**	$729,446	4.5%	$698,020	9.4%
Net premiums written	**316,626**	**(47.0)**	597,102	(14.0)	694,337	10.6
Net premiums earned	**540,653**	**4.4**	517,892	(7.2)	558,049	7.1

Changes in the levels of gross premiums written between years is affected in part 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 were also impacted by several Speciality Reinsurance Assumed ("SRA") contracts being rewritten, which affected both the multi-year and annual premiums. This effect is reflected in Table III. In addition, during the fourth quarter of 1997 and 1995, a mandatory reinstatement premium was written, triggered by a loss in excess of a specified threshold, resulting in a retrospective portion of $11.0 million and $7.3 million, respectively, 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 written (decreased) increased (3.4%), 0.9% and 8.5% for the 1997, 1996 and 1995 fiscal years, respectively.

Net premiums written were likewise impacted by the above mentioned adjustments. In addition net premiums written in 1997 and 1996 were affected by the general liability quota share reinsurance policy which came into effect on December 1, 1995. This reinsurance policy covers general liability risks written on a guaranteed cost form, with certain exclusions. X.L. and X.L.E. cede 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 Company has also purchased, with effect from September 1, 1997, a general liability excess of loss reinsurance program. The adjustments noted in Table III resulted in a decrease of 7.0% and 0.3% in 1997 and 1996, respectively, from the prior year. The relative further decrease is reflective of the growth in the product lines of X.L. Risk Solutions and employment practices liability. As each of these lines are reinsured, growth will increase the amount of premiums ceded.

The increase in net earned premiums in 1997 reflects the acquisition of GCRH and its subsidiary, GCR. Most of the business GCR wrote occurred in the first half of the year. As a consequence, GCR contributed premiums written of only $12.9 million since the date of acquisition, June 12, 1997. Unearned premiums were $66.0 million as of this date, resulting in GCR contributing $39.5 million in net earned premium. This has been offset by the decline in the Company's general liability business and the placement of the excess of loss reinsurance program. Net premiums earned will also likely continue to grow temporarily, even when gross premiums written have started to decline as the growth in net premiums earned generally lags behind the growth in net premiums written.

The decline in net premiums earned in 1996 is due to the effect of the general liability quota share policy. Following the adjustment of the previously mentioned items as noted in Table III, net premiums earned increased 4.4%, 3.0% and 4.8% in 1997, 1996 and 1995, respectively.

Table II presents the split of gross premiums written by X.L., X.L.E and XLGRe by line of business and after multi-year adjustments, for the fiscal years indicated: *(U.S. dollars in thousands)*

Table II

	1997				1996				1995		
	X.L.	**X.L.E.**	**XLGRe**	**Total**	X.L.	X.L.E.	XLGRe	Total	X.L.	X.L.E.	Total
General liability	**$241,351**	**$37,819**	**-**	**$279,170**	322,986	51,044	-	$374,030	$366,714	$61,069	$427,783
Directors & officers liability	**18,359**	**1,804**	**-**	**20,163**	20,819	2,099	-	22,918	22,393	2,392	24,785
Professional liability	**42,690**	**11,683**	**-**	**54,373**	41,776	10,662	-	52,438	42,430	10,825	53,255
Employment practices liability	**12,106**	**-**	**-**	**12,106**	3,006	-	-	3,006	-	-	-
Property	**24,250**	**2,598**	**-**	**26,848**	25,472	810	-	26,282	20,035	1,708	21,743
X.L. Risk Solutions	**19,946**	**-**	**-**	**19,946**	8,252	-	-	8,252	-	-	-
Reinsurance assumed	**31,186**	**10,310**	**102,833**	**144,329**	13,265	14,602	75,392	103,259	45,658	16,020	61,678
Annualized premium	**389,888**	**64,214**	**102,833**	**556,935**	435,576	79,217	75,392	590,185	497,230	92,014	589,244
Adjustment for multi-year premiums	**(5,181)**	**(8,985)**	**(101,479)**	**(115,645)**	14,993	13,096	111,172	139,261	99,188	9,588	108,776
Gross premiums written	**$384,707**	**$55,229**	**$1,354**	**$441,290**	$450,569	$92,313	$186,564	$729,446	$596,418	$101,602	$698,020

Although total gross premiums written declined in 1997 compared to 1996, gross premiums written from reinsurance assumed grew significantly during the same period. The nature of the reinsurance assumed has diversified to include more traditional forms of reinsurance, including property, marine and aviation. Other areas of reinsurance include satellite and political risk cover. The Company initially focused on boutique or speciality reinsurance arrangements. These contracts are few in number, loss sensitive and multi-year in nature. Significant premiums were initially paid on these contracts of which a significant portion is returnable where the contract goes loss free. This was the case when two of these contracts were written in 1996 and four in 1997. Table III is adjusted for these contracts, as if they were not written.

SRA premiums assumed by X.L.E. relate principally to a specialty 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. This program continued to decline in 1997 largely due to a restructuring of the facility to an excess of loss basis from a quota share basis.

X.L. Risk Solutions, was introduced late in the second quarter of 1996. X.L. Risk Solutions is a coordinated initiative with CIGNA to provide combined limits of capacity for two or more of X.L.'s stand alone product lines over three or more years. In addition, X.L. provides combined property capacity coverage with CIGNA in certain circumstances, which is reflected in the property line. 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 response to a perceived need for such coverage. While there has been growth in 1997, competitive pressures will likely slow the rate of growth in 1998.

General liability has experienced the greatest decline in premium levels reflecting the impact of severe competitive pressures from the U.S. domestic market, Lloyd's of London, European carriers and other Bermuda-based suppliers of general liability coverage in both terms and pricing. These pressures have led to a decline in policy retention from 87.9% to 80.1% for 1996 and 1997, respectively. Excluding insureds acquired by existing insureds, this ratio increased to 89.7% and 81.8%, respectively. The retention ratio for 1995 was 89.7%. Average attachments were $104.0 million,

$78.7 million and $73.0 million and average limits were $86.4 million, $80.2 million and $72.8 million for the years ending November 30, 1997, 1996 and 1995, respectively, reflecting the Company's strategy to increase attachments where possible when confronted with significant price reductions unaccompanied by commensurate reductions in exposure. Accordingly, the decrease in premiums has been a factor associated with 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		
	1997	1996	1995	**1997**	1996	1995	**1997**	1996	1995
	(U.S. dollars in thousands)								
General liability	**$252,790**	$432,002	$446,730	**$150,816**	$319,745	$446,730	**$263,543**	$325,777	$427,944
Directors and officers liability	**23,147**	27,612	24,785	**23,147**	27,612	24,785	**21,195**	23,893	27,522
Professional liability	**57,699**	56,517	53,983	**57,699**	56,517	53,983	**53,907**	53,822	53,939
Employment practices liability	**12,106**	3,006	-	**7,514**	1,849	-	**5,668**	449	-
Property	**38,261**	40,691	18,293	**29,367**	30,678	14,610	**21,264**	20,622	13,760
X.L. Risk Solutions	**34,369**	24,757	-	**27,870**	15,840	-	**10,594**	2,263	-
Reinsurance assumed	**22,918**	144,861	154,229	**20,213**	144,861	154,229	**164,482**	91,066	34,884
Per financial statements	**441,290**	729,446	698,020	**316,626**	597,102	694,337	**540,653**	517,892	558,049
Adjustment for multi-year premiums	**115,645**	(139,261)	(108,776)	**122,762**	(129,432)	(108,776)	**-**	-	-
Annual adjustment for SRA contracts	**6,852**	(24,772)	(13,500)	**6,852**	(24,772)	(13,500)	**4,938**	(21,012)	(5,362)
Retrospective portion of mandatory premium reinstatement	**(11,000)**	-	(7,253)	**(11,000)**	-	(7,253)	**(11,000)**	-	(7,253)
Reinsurance ceded general liability quota share	**-**	-	-	**65,908**	112,257	-	**47,003**	65,159	-
Reinsurance ceded general liability excess of loss	**-**	-	-	**33,750**	-	-	**5,625**	-	-
Adjusted premiums	**$552,787**	$565,413	$568,491	**$534,898**	$555,155	$564,808	**$587,219**	$562,039	$545,434

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The following table presents an analysis of the Company's revenues from its portfolio of investments and its investments in affiliates:

Table IV

	Year ended November 30,					
	1997		1996		1995	
	(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	**$216,552**	**9.1%**	$198,598	(0.8)%	$200,145	9.8%
Net realized gains	**335,939**	**N.M.**	206,212	N.M.	49,774	N.M.
Equity in net income of affiliates	**65,882**	**11.2%**	59,249	16.0%	51,074	100.0%

Net investment income declined modestly in 1996 compared to 1995 due to the portfolio being carried at lower average investment yields. In 1997, the growth in investment income reflects both a higher investment average yield and a larger asset base.

Significant gains were realized in 1996 due to the liquidation of two fixed maturity portfolios and one equity portfolio due to similarities in strategies, and as a result of the overall strengthening of the bond and equity markets. Also, during the fourth quarter of 1996 the Company invested in a synthetic equity portfolio holding S&P 500 Index futures, realizing $37.4 million in gains.

During 1997, both the fixed income and equity portfolios were restructured, resulting in the above normal turnover of the portfolio, and contributing to the significant gains realized during the year. The equity markets strengthened during the year with the equity markets reaching historic highs. The Company's investment managers have taken advantage of these market conditions and locked in gains where deemed appropriate. The synthetic equity portfolio reflected these market conditions and realized $46 million in gains during 1997. A further discussion of this portfolio is included under "Financial Condition and Liquidity".

Equity in net income from affiliates is mostly attributable to MOCL. Income attributable to this investment was $62 million, $59 million and $51 million in 1997, 1996 and 1995, respectively. The Company's share of MOCL's net income included realized gains of $2.6 million, $0.6 million and $0.4 million, respectively. The balance of equity in net income from affiliates in 1997 was derived from RCHI and income distributed from the Company's investments in partnerships.

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,		
	1997	1996	1995
Loss and loss expense ratio	**67.6%**	78.3%	79.0%
Underwriting expense ratio	**18.2**	15.3	15.0
Combined ratio	**85.8**	93.6	94.0

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 XLGRe 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 were largely offset by the reduction of reserves provided by good loss experience in 1993 and 1994.

The further decrease in the loss ratio in 1997 reflects continued growth of the Company's short tail reinsurance business relative to its direct casualty lines. The growth in reinsurance premiums assumed was enhanced by the acquisition of GCR. Most of this business is property catastrophe in nature, which experienced relatively low loss activity in 1997 and resulted in lowering the overall loss ratio. X.L.E. also reduced their short tail reserves that related to its specialty reinsurance program. It must be emphasized that, the shortness of the tail dictates, relatively quickly, the adequacy or redundancy of the reserves, making losses for this type of business potentially volatile in nature.

Overall losses incurred in 1997 were high as noted in the "Reconciliation of Unpaid Losses and Loss Expenses", disclosed in note 6 of the Company's financial statements. The high level of incurred losses is driven by the Company's reserving model, which was modified in 1996. The model reacts to loss experience relative to its loss history. The nature of the Company's casualty losses are low frequency, high severity. Accordingly, one or two losses outside of the expected frequency can have a significant impact on any given year. During 1997, the Company established three new casualty indemnity reserves totalling $145 million. Historically, such losses have not emerged this quickly, resulting in the model projecting increased loss activity. Should actual loss activity prove to be different than the model's indicated outcome, these reserves will be adjusted accordingly. The 1997 losses were offset by the reduction in reserves by $279 million that related to prior years, inclusive of the short tail reserves reduced by X.L.E. as mentioned above. The most significant releases were from 1995 and 1993 of $138 million and $84 million, respectively. Actual loss frequency declined in these years due to the elimination of one indemnity reserve in 1995 and the reclassification of one reserve from 1993 to 1994. The change in frequency relative to historical experience resulted in the reserving model reducing these reserves.

The underwriting expense ratio increased in 1996 over 1995, principally due to the growth of administration expenses as a percentage of earned premiums. Administration expenses were 8.5% and 5.5% in 1996 and 1995, respectively. This growth in expense ratio was moderated by the impact of the general liability quota share commissions and the lower average acquisition costs on premiums written by XLGRe. Administration expenses increased to 9.7% in 1997 as the Company's operations expanded to increase its range of capabilities and the acquisition of GCR. Acquisition costs as a percentage of earned premiums have also increased by 1.6% reflecting the higher costs associated with writing reinsurance treaty business. The expense ratio excludes interest expense and the amortization of intangible assets.

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 not subject to corporate income taxes in the jurisdictions (other than withholding taxes based on dividend income) in which they operate. Income tax expense was $5.1 million in 1997, $2.8 million, in 1996 and $1.7 million in 1995.

Net income was $677.0 million, $494.3 million and $332.8 million, or $7.84, $5.39 and $3.22 per share in 1997, 1996 and 1995, respectively, representing increases per share compared to the preceding years of 45.5%, 67.4% and 143.9%, respectively. 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. The increase in per share amounts in 1997 over 1996 again reflects a growth in realized gains from $206.2 million to $335.9 million and a decrease in the weighted average shares outstanding from 91.7 million shares to 86.4 million.

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, 1997, X.L. could have paid dividends in the amount of approximately $1.5 billion. Neither the Company nor any of its subsidiaries other than X.L. and XLGRe 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, 1997 was $2.5 billion, of which $2.0 billion was retained earnings.

At November 30, 1997, total investments and cash net of the payable for investments purchased were $4.3 billion, compared to $4.0 billion at November 30, 1996. 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 possible that claims payments may increase due to the increased exposure to events which occurred in prior years but have not yet been reported or paid. It is also possible that funds available for investments may 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, 1997 represented approximately 80% of invested assets and were managed by several outside investment managers with different strategies. Of the fixed income securities 85% are of investment grade, with 58% rated Aa or AA or better by a nationally recognized rating agency.

In fiscal 1995, 1996 and 1997, the total amount of losses paid by the Company was, $188.5 million, $302.6 million and $267.2 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 0.8 to 1 for the year ended November 30, 1995, 0.5 to 1 for the year ended November 30, 1996, and 0.4 to 1 for the year ended November 30, 1997. This ratio has declined largely due to the increased levels of reinsurance ceded and the decline in premiums written during 1997. XLGRe had a ratio of 0.08 to 1 for the year ended November 30, 1996 and 0.7 to 1 for the year ended November 30, 1997.

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

The Company completed its fifth authorized stock repurchase program of 5 million shares on April 9, 1997 having purchased 2.8 million shares at a cost of $115.0 million during fiscal 1997. On January 24, 1997, the Board of Directors authorized the Company to repurchase a further 3 million shares as circumstances warrant. As at November 30, 1997, the Company had purchased 595,000 shares at cost of $25.3 million under the existing program. There are 2.4 million shares remaining on this program.

The Company's $200 million revolving line of credit with Mellon Bank was replaced on June 11, 1997, by two revolving lines of credit each for $250 million, one for 364 days, the other for 5 years. These facilities are provided by a syndicate of banks led by Mellon Bank. The Company has made several draw downs in connection with the purchase of GCRH and to supplement operational cash flow. GCRH was acquired at a total cost of $669 million, of which $460 million was funded from the lines of credit. The amount of $300 million was repaid on July 11, 1997 through the liquidation of the GCR investment portfolio. The weighted average interest rate on the funds borrowed during the period was 6.058%. Loans are made up of three amounts: $80 million due June 12, 1998, and $40 million and $10 million which were repaid on December 12, 1997.

On December 24, 1997, the Company received a firm commitment from a syndicate of commercial banks led by Mellon Bank to replace its existing unsecured letter of credit facility with a $500 million letter of credit facility which will be secured against the Company's investment portfolio. The Company has committed to unsecured letters of credit totalling $138.6 million and £10.2 million as at November 30, 1997.

The Company regularly evaluates the potential acquisition of, and periodically holds discussions with, various potential acquisition candidates. As a general rule, the Company publicly announces acquisitions only after a definitive agreement has been reached unless otherwise required by law.

The Company is reviewing the effect that the Year 2000 will have on its essential computer systems, especially those related to its ongoing operations and its internal control systems, including the preparation of financial information. The Company is developing plans to minimize any potential adverse effect on its operations, systems or accounting records related to the Year 2000.

Financial Risk Management

This risk management discussion and the estimated amounts generated from the sensitivity analysis are forward-looking statements of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from these projected results due to actual developments in the global financial markets. The analysis methods used by the Company to assess and mitigate risk should not be considered projections of future events of losses.

The Company's investment portfolio consists of fixed income and equity securities, denominated in both U.S. and non-U.S. dollars. Accordingly, earnings will be affected by changes in interest rates, equity prices and foreign currency exchange rates.

An immediate 100 basis point adverse shift in the treasury yield curve, would result in a decrease in total return of 4.5% or $156 million of the Company's fixed income portfolio. There would be no material impact on the Company's short-term debt.

In evaluating the impact of price changes on the equity portfolio, including the synthetic portion thereof, the annual volatility (standard deviation adjusted to an immediate time horizon) of the S&P (Standard and Poors) Index and the Morgan Stanley EAFE (European Australian Far East) Index were used as proxies for the U.S. and non-U.S. securities, respectively. Based upon one standard deviation, total return would be impacted by $12 million. A 5% change in equity prices would affect total return by $51 million.

Foreign Currency Risk Management

The Company attempts to hedge directly the foreign currency exposure of a portion 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. Where an investment is sold, the related foreign exchange sale contract is closed by entering into an offsetting purchase contract. At November 30, 1997 the Company had, as hedges, foreign exchange contracts for the sale of $131.5 million and the purchase of $52.8 million of foreign currencies at fixed rates, primarily Canadian Dollars (31% of net contract value), German Marks (30%), Swedish Kroner (14%), Japanese Yen (12%) and Finnish Markka (11%). The market value of non-U.S. Dollar fixed maturities held by the Company as at November 30, 1997 was $79.7 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, 1997, unrealized deferred gains amounted to $2.7 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, 1997, realized deferred gains amounted to $10.3 million.

The Company uses foreign exchange contracts to manage the foreign exchange risk of fluctuating foreign currencies on the value of its remaining non-U.S. Dollar fixed maturities and its non-U.S. equity investments on an overlay basis. 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, 1997 the Company had such forward contracts outstanding of $400.2 million with unrealized gains of $16.0 million. Gains of $29.3 million were realized 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, 1997 would have resulted in approximately $34.6 million in unrealized gains and $1.6 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, 1997, the Company had $6.6 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, 1997 would have had no material effect on income.

Speculative Financial Instruments

The Company also invests in a synthetic equity portfolio of S&P Index futures with an exposure approximately equal in amount to the market value of underlying assets held in this fund. As at November 30, 1997, the portfolio held $188.8 million in exposure to S&P 500 Index futures together with fixed maturities, short-term investments and cash amounting to $189.2 million. Based on this value, a 5% increase or decrease in the price of these futures would have resulted in exposure of $198.2 million and $179.4 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, 1997, net realized gains from index futures totalled $46.3 million as a result of the 28.5% increase in the S&P Index during the twelve-month period.

Derivative investments are also utilized to add value to the portfolio where market inefficiencies are believed to exist. At November 30, 1997 bond and stock index futures outstanding were $302.4 million with underlying investments having a market value of $2.0 billion (all managers are prohibited by the Company's investment guidelines from leveraging their positions). A 5% appreciation or depreciation of these derivative instruments at this time would have resulted in unrealized gains and losses of $15.1 million, respectively.

Accounting Standards

The Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings per Share", effective for fiscal years ending after December 15, 1997. Earlier application is not permitted. This statement simplifies the standards in APB-15 for computing earnings per share by replacing primary earnings per share ("EPS") with basic earnings per share. Neither basic nor diluted EPS as calculated in accordance with SFAS 128 would be materially different from primary and fully diluted EPS as presented in these financial statements and by altering the calculation of diluted earnings per share, which replaces fully diluted earnings per share.

FASB also issued SFAS No. 129, "Disclosure of Information about Capital Structure", effective for fiscal years ending after December 15, 1997. This statement consolidates existing disclosure requirements and eliminates the exemption for non-public entities for certain disclosure.

FASB issued Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income", which the Company will be required to adopt for fiscal year 1998. This statement will require the Company to report in the financial statements, in addition in net income, comprehensive income and its components including, as applicable, foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. Upon adoption, the Company will also be required to reclassify financial statements for earlier periods provided for comparative purposes. The Company currently expects that the effect of adoption of SFAS 130 may be primarily from foreign currency translation adjustments and has not yet determined the manner in which comprehensive income will be displayed.

FASB issued Statement of Financial Accounting Standards No. 131, ("SFAS 131") "Disclosures about Segments of an Enterprise and Related Information", which the Company will be required to adopt for fiscal year 1998. This statement established standards for reporting information about operating segments in annual financial statements and requires selected information about operation segments in interim financial reports issued to shareholders. It also established standards for related disclosures about products and services, geographic areas and major customers. Under SFAS 131, operating segments are to be determined consistent with the way that management organizes and evaluates financial information internally for making operating decisions and assessing performance. The Company has not determined the impact of the adoption of this new accounting standard on its consolidated financial statement disclosures.

Apart from SFAS No. 131, these new standards are not expected to have a material impact on the Company's financial statements and disclosures.

Current Outlook

The Company believes competition in the property casualty insurance and reinsurance industry will continue to be strong and may intensify in 1998, exerting pressure on rates in general and particularly in the Company's traditional casualty product lines. Although the Company believes some opportunities will exist in 1998 for growth in certain product lines, no assurances can be made that growth in such other product lines will be sufficient to offset the competitive pressures affecting the Company's traditional product lines.

Cautionary Note Regarding Forward-Looking Statements

This Annual Report contains statements that may be considered to be “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, without limitation, insofar as they may be considered to be forward-looking statements, certain statements (i) containing a projection of revenues, income (including income loss), earnings (including earnings loss) per share, capital expenditures, dividends, capital structure or other financial items; (ii) of the plans and objectives of management for future operations including plans or objectives relating to products and services of the Company and its subsidiaries; (iii) of future economic performance, including any such statement contained in a discussion and analysis of financial condition by management or in the results of operations; (iv) of the assumptions underlying or relating to any statement described in clauses (i), (ii) and (iii) above; and (v) containing a projection or estimate of certain other items.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. The Company believes that these include the following non-exclusive factors:

(1) The Company’s business strategy is based on current market conditions as well as those which the Company anticipates will exist in the future. Market conditions, which include the activities of other market participants, are generally beyond the ability of the Company to control. An inherent risk associated with any business strategy is that market conditions will change in such a way as to render it ineffective, obsolete or even counterproductive. Management believes that the property-casualty insurance and reinsurance industry is dynamic and that the pace and extent of changes in market conditions which could affect the Company’s strategy are likely to accelerate. Such changes may have a material adverse effect on the Company’s strategy, and hence its results of operations and financial condition, in future periods.

(2) The property-casualty insurance and reinsurance industry is highly competitive and could become even more competitive in the future. In particular, increased competition on the basis of pricing and coverage terms could have a material adverse effect on the Company’s results of operations and financial condition in future periods depending on the actions which it takes under such circumstances in order to retain existing customers and attract new business.

(3) As many of the risks which the Company’s subsidiaries insure or reinsure are large or catastrophic in nature, a major loss event or series of major loss events can be expected to occur from time to time. The Company is also exposed to the risk that, in certain circumstances, a set of related casualty losses may be aggregated into a major loss event if permitted by the terms of the relevant policy. Major loss events, which at such high levels are inherently difficult to predict and quantify in advance despite the Company’s underwriting methodologies, may be greater in severity and frequency than the Company anticipates. Accordingly, such events may have a material adverse effect on the Company’s results of operations and financial condition in future periods.

(4) Many of the risks underwritten by the Company’s subsidiaries are also long-tail in nature, particularly those arising from its casualty lines of business. Long-tail risks are those which may take many years for covered occurrences to mature into payable claims. Losses may develop more quickly than the Company anticipates, and historic loss development data on which the Company’s underwriting, reserving and investment practices are based may not be a reliable indicator of loss development patterns in the future. Accordingly, losses which develop faster than what the Company has experienced in the past may have a material adverse effect on its results of operations and financial condition in future periods.

(5) The performance of the Company’s investment portfolio generally depends on the performance fixed income and equity securities in selected financial markets throughout the world, variations in interest and currency exchange rates and other factors which are difficult to predict and beyond the ability of the Company to control. Although the Company pursues investment and risk management strategies with these factors in mind, it is not possible to eliminate the risks associated with adverse developments in any one or more of the foregoing. The Company’s results of operations and financial condition may be affected in future periods if any one or more of the factors described above has a material adverse effect on the value of its investment portfolio or the income derived therefrom.

(6) Regulation and taxation affecting insurance and reinsurance companies has an effect on the Companys business. There could be a material adverse effect on the Companys results of operations and financial condition if it or its subsidiaries were to become subject to substantial regulation or corporate income taxation, particularly from the United States, or if laws were adopted to make it more difficult or costly for its customers to place business with the Companys Bermuda-based subsidiaries.

(7) From time to time, the Company develops new risk transfer products and related services which it believes can make a significant contribution to its results of operations. There are many risks associated with the introduction of new products and services, including misperceptions concerning the demand therefor, changes in market conditions which may diminish the appeal of such products and services, and changes in accounting, regulatory or tax treatment, that may cause the expected related or desired contributions therefrom to be materially less than initially contemplated.

(8) The Company may make acquisitions from time to time in furtherance of its strategy. Acquisitions may have material effects on the Companys results of operations, financial conditions and shareholders equity and accordingly may cause actual results to differ from those described in a forward-looking statement.

The factors set forth above should be considered in connection with any forward-looking statement contained in this Annual Report. The important factors that could affect such forward-looking statements are subject to change, and the Company does not intend to update the foregoing list. By this cautionary note, the Company intends to avail itself of the safe harbor from liability with respect to forward-looking statements provided by Section 27A and Section 21E referred to above.

Report of Managements 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 managements estimates for transactions not yet complete or for which the ultimate effects cannot be precisely determined.

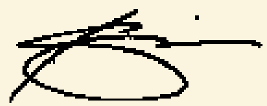
The Company maintains internal accounting controls which have been designed to provide reasonable assurance that all assets are safeguarded against unauthorized use or disposition and that transactions are authorized, executed and recorded properly in accordance with managements authorization. The internal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

The Company engages Coopers & Lybrand as independent auditors to audit the consolidated financial statements and express an opinion thereon. Their audits include a review and evaluation of the Companys internal controls and systems, 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 full 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. OHara

Chairman, President and Chief Executive Officer



Michael A. Siese

Principal Accounting Officer

Independent Auditors' Report

Coopers & Lybrand

chartered accountants

Dorchester House
7 Church Street West
Hamilton, Bermuda HM 11

P.O. Box HM 1171
Hamilton, Bermuda HM EX

telephone (441) 295-2000

fax (441) 295-1242 ([illegible])

To the Shareholders of EXEL Limited:

We have audited the accompanying consolidated balance sheets of EXEL Limited as of November 30, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended November 30, 1997. 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 1997 in conformity with accounting principles generally accepted in the United States of America.

Coopers & Lybrand

COOPERS & LYBRAND

Hamilton, Bermuda
January 11, 1998

Coopers & Lybrand is a member of Coopers & Lybrand International, a limited liability association incorporated in Switzerland

T. Michael Cooper OBE, FCA, JP David E.W. Lines OBE, FCA, JP
Raymond C. [illegible] George H. Holmes Peter C.S. Mitchell Thomas E.C. Miller Dennis G. Johnston

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EXEL LIMITED

Consolidated Balance Sheets

AS AT NOVEMBER 30, 1997 AND 1996

(Expressed in thousands of U.S. Dollars)

	1997	1996
Assets		
Investments:		
Fixed maturities, at market value (amortized cost: 1997-$3,144,642; 1996-$2,812,415)	**$3,196,872**	$2,844,877
Equity securities, at market value (cost: 1997-$729,888; 1996-$595,149)	**837,827**	812,050
Short-term investments, at market value (amortized cost: 1997-$220,138; 1996-$115,791)	**219,969**	115,999
Total investments	**4,254,668**	3,772,926
Cash and cash equivalents	**394,599**	252,734
Investment in affiliates (cost: 1997-$336,680; 1996-$280,748)	**517,396**	414,891
Other investments	**27,244**	23,803
Accrued investment income	**48,576**	55,729
Deferred acquisition costs	**22,272**	30,383
Prepaid reinsurance premiums	**108,916**	63,467
Premiums receivable	**254,238**	345,082
Reinsurance balances receivable	**156,025**	46,444
Intangible assets	**267,695**	-
Other assets	**36,833**	26,079
Total assets	**$6,088,462**	$5,031,538
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss expenses	**$2,342,254**	$2,099,096
Unearned premiums	**566,911**	679,535
Premiums received in advance	**40,706**	24,256
Accounts payable and accrued liabilities	**40,923**	28,171
Reinsurance premiums payable	**69,305**	31,347
Loans payable	**141,000**	11,000
Payable for investments purchased	**382,345**	42,095
Minority interest	**25,888**	-
Total liabilities	**$3,609,332**	$2,915,500
Shareholders' Equity:		
Ordinary shares (par value $0.01; authorized, 999,990,000 shares; issued and outstanding, 84,407,638 shares (excluding 27,594,800 shares held in treasury) and 87,170,644 shares (excluding 24,205,100 shares held in treasury) at November 30, 1997 and 1996, respectively)	**844**	872
Contributed surplus	**290,085**	282,980
Net unrealized appreciation on investments	**188,444**	256,430
Deferred compensation	**(11,362)**	(4,169)
Retained earnings	**2,011,119**	1,579,925
Total shareholders' equity	**$2,479,130**	$2,116,038
Total liabilities and shareholders' equity	**$6,088,462**	$5,031,538

See accompanying notes to Consolidated Financial Statements

EXEL LIMITED

Consolidated Statements of Income

FOR THE YEARS ENDED NOVEMBER 30, 1997, 1996 AND 1995

(Expressed in thousands of U.S. Dollars, except per share amounts)

	1997	1996	1995
Revenues:			
Net premiums earned	**$540,653**	$517,892	$558,049
Net investment income	**216,552**	198,598	200,145
Realized gains on sale of investments *(Note 3)*	**335,939**	206,212	49,774
Equity in net income of affiliates	**65,882**	59,249	51,074
Total revenues	**1,159,026**	981,951	859,042
Expenses:			
Losses and loss expenses	**365,325**	405,357	440,922
Acquisition costs	**46,108**	35,556	53,016
Administration expenses	**52,557**	43,920	30,586
Interest expense	**7,176**	-	-
Amortization of intangible assets	**5,844**	-	-
Total expenses	**477,010**	484,833	524,524
Income before minority interest and income tax expense	**682,016**	497,118	334,518
Minority interest in net income of subsidiary	**(30)**	-	-
Income tax expense	**5,085**	2,805	1,720
Net income	**$676,961**	$494,313	$332,798
Weighted average number of ordinary shares and ordinary share equivalents outstanding	**86,373**	91,731	103,438
Net income per ordinary share and ordinary share equivalent	**$7.84**	$5.39	$3.22

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See accompanying notes to Consolidated Financial Statements

EXEL LIMITED

Consolidated Statements of Shareholders' Equity

FOR THE YEARS ENDED NOVEMBER 30, 1997, 1996 AND 1995

(Expressed in thousands of U.S. Dollars)

	1997	1996	1995
Ordinary Shares:			
Balance – beginning of year	**$872**	$473	$535
Issuance of shares (aggregate par value less than $1 in 1995)	**3**	1	-
Stock dividend	**-**	441	-
Exercise of stock options	**3**	4	1
Repurchase of treasury shares	**(34)**	(47)	(63)
Balance – end of year	**844**	872	473
Contributed Surplus:			
Balance – beginning of year	**282,980**	295,209	328,374
Issuance of restricted shares	**10,771**	7,493	1,926
Exercise of stock options	**6,277**	6,045	4,603
Repurchase of treasury shares	**(9,943)**	(25,767)	(39,694)
Balance – end of year	**290,085**	282,980	295,209
Net Unrealized Appreciation (Depreciation) on Investments:			
Balance – beginning of year	**256,430**	283,289	(110,410)
Net change in investment portfolio	**(82,521)**	(26,621)	378,158
Net change in investment portfolio of affiliate	**14,535**	(238)	15,541
Balance – end of year	**188,444**	256,430	283,289
Deferred Compensation:			
Balance – beginning of year	**(4,169)**	(1,657)	(837)
Issuance of restricted shares	**(10,387)**	(3,799)	(1,800)
Amortization	**3,194**	1,287	980
Balance – end of year	**(11,362)**	(4,169)	(1,657)
Retained Earnings:			
Balance – beginning of year	**1,579,925**	1,428,819	1,466,731
Net income	**676,961**	494,313	332,798
Cash dividends paid	**(115,372)**	(86,586)	(71,253)
Repurchase of treasury shares	**(130,395)**	(256,621)	(299,457)
Balance – end of year	**2,011,119**	1,579,925	1,428,819
Total shareholders' equity	**$2,479,130**	$2,116,038	$2,006,133

See accompanying notes to Consolidated Financial Statements

EXEL LIMITED

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED NOVEMBER 30, 1997, 1996 AND 1995

(Expressed in thousands of U.S. Dollars)

	1997	1996	1995
Cash flows provided by operating activities:			
Net income	**$676,961**	$494,313	$332,798
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized gains on sale of investments	**(335,939)**	(206,212)	(49,774)
Unrealized loss (gain) on foreign exchange	**-**	-	3,069
Amortization of (discounts) premium on fixed maturities	**(2,163)**	7,021	5,006
Equity in net income of affiliates net of cash received	**(34,395)**	(44,329)	(43,703)
Amortization of deferred compensation	**3,194**	1,287	980
Amortization of intangible assets	**5,844**	-	-
Unpaid losses and loss expenses	**208,565**	178,596	255,066
Reinsurance balances receivable	**(109,581)**	(45,442)	(1,002)
Unearned premiums	**(178,584)**	140,239	138,726
Prepaid reinsurance premiums	**(45,449)**	(61,029)	(2,438)
Premiums received in advance	**16,450**	19,376	(6,874)
Deferred acquisition costs	**17,292**	10,571	(5,237)
Premiums receivable	**154,521**	(111,054)	(116,312)
Reinsurance premiums payable	**37,958**	30,524	823
Accrued investment income	**10,729**	(2,580)	6,929
Accounts payable and accrued liabilities	**2,839**	11,188	5,108
Total adjustments	**(248,719)**	(71,844)	190,367
Net cash provided by operating activities	**428,242**	422,469	523,165

1997

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows *(continued)*

FOR THE YEARS ENDED NOVEMBER 30, 1997, 1996 AND 1995

(Expressed in thousands of U.S. Dollars)

	1997	1996	1995
Cash flow used in investing activities:			
Proceeds from sale of fixed maturities and short-term investments	**10,332,277**	4,283,613	5,504,741
Proceeds from redemption of fixed maturities and short-term investments	**108,220**	119,706	81,000
Proceeds from sale of equity securities	**1,164,483**	591,366	221,212
Purchases of fixed maturities and short-term investments	**(10,078,481)**	(5,059,795)	(5,276,683)
Purchases of equity securities	**(999,384)**	(374,565)	(401,379)
Deferred gains on forward contracts	**7,049**	418	40,233
Investments in affiliates	**(43,184)**	(19,131)	(59,549)
Purchase of GCR Holdings Limited	**(660,137)**	-	-
Other investments	**154**	(13,736)	(5,642)
Other assets	**(24,185)**	(20,208)	1,605
Net cash (used in) provided by investing activities	**(193,188)**	(492,332)	105,538
Cash flows used in financing activities:			
Issuance of restricted shares	**387**	695	126
Proceeds from exercise of share options	**6,280**	6,049	3,135
Repurchase of treasury shares	**(140,372)**	(282,435)	(343,454)
Dividends paid	**(115,372)**	(86,145)	(71,253)
Proceeds from loans	**620,000**	11,000	-
Repayment of loans	**(490,000)**	-	-
Minority Interest	**25,888**	-	-
Net cash used in financing activities	**(93,189)**	(350,836)	(411,446)
Increase (decrease) in cash and cash equivalents	**141,865**	(420,699)	217,257
Cash and cash equivalents – beginning of year	**252,734**	673,433	456,176
Cash and cash equivalents – end of year	**$394,599**	$252,734	$673,433
Taxes paid	**$2,622**	$1,571	$1,056

See accompanying notes to Consolidated Financial Statements

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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. Insurance Company, Ltd. (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. Investments Ltd. (X.L.I.) on November 16, 1987 under the laws of Bermuda. X.L.I. in turn provided the capital to incorporate X.L. Investments (Barbados), Inc. (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, X.L. Reinsurance Company, Ltd. (XLRe) was incorporated under the laws of Bermuda as a wholly-owned subsidiary of X.L. and subsequently commenced operations effective December 1, 1995. On June 12, 1997, the Company, through a subsidiary, acquired GCR Holdings Limited. The net assets of this company's wholly-owned operating subsidiary, Global Capital Reinsurance Company Limited (GCR) were combined with XLRe with effect from this day. On November 4, 1997 XLRe was renamed X.L. Global Reinsurance Company, Ltd. (XLGRe).

On October 27, 1997 XLRe and Risk Capital Reinsurance Company (RCRe), a wholly-owned subsidiary of Risk Capital Holdings, Inc. (RCHI) formed Latin American Reinsurance Company, Ltd. (LARe) under the laws of Bermuda. RCHI is an affiliate of X.L. LARe was capitalized with $100 million, of which XLRe and RCRe contributed approximately 75% and 25% respectively. LARe will provide multi-line reinsurance to the Latin American market, emphasizing short-tail, multi-peril property reinsurance and, to a limited extent, casualty, marine, aviation and other lines of reinsurance. To date no contracts have been written.

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

Third party liability coverage up to a maximum of $150 million per occurrence and annual aggregate in excess of a minimum attachment point of $25 million and $15 million per occurrence, 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 X.L. 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 the underwriting requirements.

XLGRe provides large net line capacity for specialized programs to insurance/reinsurance companies, predominately 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 XLGRe 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.

Property quota share reinsurance of 17.5% (subject to catastrophe occurrence limit restrictions) of the X.L. property limits was purchased from two Bermuda-based property reinsurers, effective April 1, 1994. GCR was one of these reinsurers. The quota share was increased to 25% of the X.L. property limits, effective April 14, 1995, with the additional cover provided by Mid Ocean Reinsurance Company, Ltd. (''MOR''), a wholly-owned subsidiary of MOCL. GCR participation on this program was cancelled with effect from June 12, 1997 and replaced with two U.S. reinsurers and one non-U.S. reinsurer, effective July 15, 1997. All property reinsurers are rated, of which the lowest as rated by S& P is A-.

Effective December 1, 1995, X.L. 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 RCRe. Under the terms of the policy, X.L. will 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 RCRe, all the reinsurers are rated, of which the lowest as rated by S&P is BBB.

With respect to employment practices liability cover, X.L. reinsures on a quota share basis 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. Both reinsurers are rated, of which the lowest as rated by A.M. Best is A.

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.

Effective September 1, 1997, X.L. and X.L.E. entered into an excess of loss casualty catastrophe reinsurance contract covering all general liability risks. Under the terms of this policy, X.L. and X.L.E. are reinsured for $80 million ultimate net loss each occurrence excess of a per occurrence retention, subject to an annual aggregate retention. The maximum amount recoverable from the reinsurers will be an annual aggregate of $250 million. For the year ended November 30, 1997, 92.5% of this reinsurance has been placed with seventeen reinsurers, all of which are rated. With the exception of two reinsurers, the lowest as rated by S&P is A-. The other two reinsurers are rated BBB and BB by S&P, representing 3.5% participation on this program.

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 1997 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.

Financial futures and forward currency contracts are marked to market, with the corresponding realized or unrealized gain or loss included in income, except in the instance of forward foreign currency contracts that are used to hedge currency risks on specific investments. Gains and losses from these contracts are deferred and included in shareholders' equity until the corresponding asset is sold.

(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. Revenue and expense transactions are translated at the average exchange rates prevailing during the year.

(e) *Investment in Affiliates*

The Company accounts for its investments in affiliates on the equity basis.

(f) *Other Investments*

The Company accounts for its other investments on a cost basis. Assets are written down to their realizable value where there is a permanent decrease in value. Income is recorded when received.

(g) *Amortization of Intangible Assets*

Intangible assets recorded in connection with the Company's business combinations are amortized on a straight-line basis over the expected life of the related operations acquired or twenty years, whichever is less.

(h) *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 insurers 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 relevant insurance industries.

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.

(i) 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.

(j) 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, 1997	1996	1995
Fixed maturities, short-term investments and cash and cash equivalents	**$220,859**	$200,711	$205,123
Equity securities	**14,516**	11,752	10,001
Total investment income	**235,375**	212,463	215,124
Investment expenses	**18,823**	13,865	14,979
Net investment income	**$216,552**	$198,598	$200,145

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, 1997	1996	1995
Realized gains (losses):			
Fixed maturities and short-term investments:			
Gross realized gains	**$177,331**	$103,830	$176,518
Gross realized losses	**(168,048)**	(53,463)	(145,737)
Net realized gains	**9,283**	50,367	30,781
Equity securities:			
Net realized gains	**326,656**	155,845	16,969
Net realized gain on sale of investment in affiliate	**-**	-	2,024
Net realized gains on investments	**335,939**	206,212	49,774
Change in unrealized gains (losses):			
Fixed maturities and short-term investments	**19,391**	(58,654)	183,627
Equity securities	**(108,961)**	31,616	154,298
Deferred gains on forward contracts	**7,049**	418	40,233
Investment portfolio of affiliates	**14,535**	(239)	12,560
Net change in unrealized gains (losses) on investments	**(67,986)**	(26,859)	390,718
Total realized and change in unrealized gains on investments	**$267,953**	$179,353	$440,492

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, 1997	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Fixed maturities:				
U.S. Government and Government agency	**$1,055,581**	**$7,318**	**$(612)**	**$1,062,287**
Corporate bonds	**1,545,473**	**52,504**	**(8,095)**	**1,589,882**
Non-U.S. Sovereign Government bonds	**543,588**	**12,112**	**(10,997)**	**544,703**
Total fixed maturities	**$3,144,642**	**$71,934**	**$(19,704)**	**$3,196,872**
Short-term investments:				
U.S. Government and Government agency	**$9,941**	**$4**	**$-**	**$9,945**
Corporate bonds	**197,770**	**209**	**(56)**	**197,923**
Non-U.S. Sovereign Government bonds	**12,427**	**-**	**(326)**	**12,101**
Total short-term investments	**$220,138**	**$213**	**$(382)**	**$219,969**
Equity securities:				
Total equity securities	**$729,888**	**$154,177**	**$(46,238)**	**$837,827**

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	(28)	98,614
Non-U.S. Sovereign Government bonds	-	-	-	-
Total short-term investments	$115,791	$236	$(28)	$115,999
Equity securities:				
Total equity securities	$595,149	$231,158	$(14,257)	$812,050

The portfolio of fixed maturities as of November 30, 1997 and 1996 matures as follows *(U.S. dollars in thousands)*:

	November 30, 1997		November 30, 1996	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due after 1 through 5 years	$966,598	$967,571	$945,746	$952,360
Due after 5 through 10 years	785,625	799,996	989,547	1,002,937
Due after 10 through 15 years	237,296	236,691	81,736	87,003
Due after 15 years	776,202	808,729	528,678	537,639
Mortgage-backed investments	378,921	383,885	266,708	264,938
	$3,144,642	$3,196,872	$2,812,415	$2,844,877

4 Investment in Affiliates

The Company has investments in Mid Ocean Company Limited (MOCL), RCHI and Venton Holdings Ltd. (VHL). The Company owns 29.1% and 29.9% of the issued voting shares and 24.8% and 28.1% of the total issued shares of MOCL as at November 30, 1997 and 1996, respectively. The Company, through its subsidiary XLGRe, provides reinsurance cover to Mid Ocean Reinsurance Company Limited, on an excess basis.

The Company owns 27.9% and 22.1% of the issued shares of RCHI as at November 30, 1997 and 1996, respectively. Outstanding share warrants if exercised would dilute the Company's ownership to 22.8% and 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.

In June 1997, X.L. acquired 20% of VHL from the Trident Partnership L.P. of which EXEL is a 7.5% limited partner. The cost of this investment was $34.5 million, $17.3 million of which was paid in cash with a commitment to fund the balance as required. VHL manages three syndicates at Lloyd's of London which underwrite non-marine, marine and all main classes of business, respectively.

5 Other Investments

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 $27.2 million and $23.8 million as at November 30, 1997 and 1996, respectively, with commitments to invest a further $41.2 million and $44.9 million respectively, over the next eight years. The Company received income from its investments of $4.3 million and $Nil for the years ended November 30, 1997 and 1996, respectively. 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.

6 Losses and Loss Expenses

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

	Year ended November 30		
	1997	1996	1995
Reserve for reported losses	**$800,815**	$786,515	$811,327
Reserve for losses incurred but not reported	**1,366,126**	1,248,759	1,098,575
Reserve for loss expenses	**19,288**	17,378	9,596
Unpaid losses and loss expenses	**$2,186,229**	$2,052,652	$1,919,498

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

	1997	1996	1995
Loss payments	**$262,975**	$299,492	$184,575
Loss expense payments	**4,251**	3,150	3,929
Change in unpaid losses and loss expenses	**98,099**	102,715	252,418
Losses and loss expenses incurred	**$365,325**	$405,357	$440,922

Reconciliation of unpaid losses and loss expenses:

	Year ended November 30,		
	1997	1996	1995
Unpaid losses and loss expenses at beginning of period	**$2,052,652**	$1,919,498	$1,665,434
Losses and loss expenses incurred in respect of losses occurring in:			
Current year	**644,108**	390,892	440,394
Prior years	**(278,783)**	14,465	528
Total	**365,325**	405,357	440,922
Interest incurred on experience reserves	**886**	1,752	1,646
Portfolio transfer	**34,593**	28,687	-
Losses and loss expenses paid in respect of losses occurring in:			
Current Year	**34,055**	3,177	134
Prior years	**233,172**	299,465	188,370
Total	**267,227**	302,642	188,504
Unpaid losses and loss expenses at end of period	**$2,186,229**	$2,052,652	$1,919,498

During 1997, the Company established three new 1997 casualty indemnity reserves totalling $145 million. Historically, such losses have not emerged this quickly. The nature of the Company's losses are low frequency, high severity. The Company's reserving model, which was enhanced in 1996, reacts to loss experience relative to its loss history. Accordingly, one or two losses outside of the expected frequency can have a significant impact on any given year, and the high level of the 1997 current year incurred losses was a result of this. Should actual loss history prove to be different than the model's indicated outcome, these reserves will be adjusted accordingly.

The 1997 current paid losses represents, reinsurance treaty losses on the Company's short tail business.

The 1997 losses were offset by the release of $279 million in reserves that related to prior years. The change in frequency relative to historical experience resulted in the reserving model reducing the required reserves.

Losses and loss expenses incurred for prior years during 1996 and 1995 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.

7 Contingencies and Commitments

The Company has committed to unsecured letters of credit totalling $138.6 million and £10.2 million as at November 30, 1997.

On December 24, 1997, the Company received a firm commitment with a syndicate of commercial banks led by Mellon Bank to replace its existing letter of credit facility with a $500 million letter of credit facility which will be secured against the Company's investment portfolio. Existing letters of credit will become part of this facility.

8 Credit Agreement

On November 16, 1996, the Company established a revolving line of credit with Mellon Bank. On June 11, 1997, this was replaced by two unsecured revolving lines of credit of $250 million each, one for 364 days (short-term) and the other for 5 years (long-term). During the year a total of $620 million was borrowed at a weighted average rate of 6.058%. Total interest expense and facility costs amounted to $7.18 million for the year ended November 30, 1997. As at November 30, 1997, the outstanding balance was $130.0 million and is repayable within the next twelve months.

The Credit Agreement for both facilities contains various financial and non-financial covenants, including a requirement for the Company to maintain consolidated net worth of at least $1.2 billion. The Company was in compliance with all covenants under the Credit Agreement as at November 30, 1997.

On June 27, 1996, the Company borrowed $11.0 million from the Bank of Bermuda (New York) Limited in order to fund its investment in Pareto Partners, Inc., an investment management company. The loan is repayable in five years. During the year the weighted average interest rate charged on the loan was 6.0532%. Total interest expense amounted to $0.7 million for the year ended November 30, 1997.

9 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 29, 1993, the Company initiated its first of several buy back programs from the public market. The following table summarizes these programs and their related costs from September 29, 1993 to November 30, 1997:

(Share units and US dollars in thousands)

Authorization		Completion		
Date	Shares	Date	Shares	Cost
09/29/93	2,000	09/30/94	2,000	44,310
09/30/94	4,000	06/23/95	4,000	91,044
09/23/95	10,000	10/11/95	10,000	270,035
12/01/95	6,000	07/08/96	6,000	207,670
06/28/96	5,000	04/09/97	5,000	189,792
01/24/97	3,000	-	595	25,240
	30,000		27,595	$828,091

The following table is a summary of shares issued and outstanding *(in thousands)*:

	Year ended November 30, 1997	1996
Balance – beginning of year	**87,170.6**	94,550.8
Exercise of options	**342.5**	600.9
Issuance of restricted shares	**284.2**	224.0
Repurchase of treasury shares	**(3,389.7)**	(8,205.1)
Balance – end of year	**84,407.6**	87,170.6

Stock plans

The Company's executive stock plan, the "1991 Performance Incentive Program", provides for grants of non qualified or incentive stock options, restricted stock awards and stock appreciation rights (SARs). The plan is administered by the Company and Compensation Committee of the Board of Directors. Stock options may be granted with or without SARs. Grant prices are established at the fair market value of the Company's common stock at the date of grant. Options and SARs have a life of 10 years and vest annually over three years from date of grant.

Restricted stock awards issued under the plan vest over a five year period from the date of grant. These shares contained certain restrictions, for said 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 market value on the date of the grant is charged to shareholders' equity and subsequently amortized over the five year restriction period. Restricted stock issued under the plan totalled 274,300 shares, 120,500 shares and 98,000 shares in 1997, 1996 and 1995, respectively.

The Company also has stock plans in place for its non-employee directors. The "Stock and Option Plan", issues non qualified options to the directors – 4,000 shares at the commencement of their directorship and 2,000 shares each year thereafter. All options vest immediately on grant date.

Under this plan, directors may also make an irrevocable election preceding the beginning of each fiscal year, to defer cash compensation that would otherwise be payable as his or her annual retainer in increments of $5,000. The deferred payments are credited in the form of shares calculated by dividing 110% of the deferred payment by the market value of the Company's stock at the beginning of the fiscal year. Each anniversary thereafter, 20% of these shares are distributed. Shares issued under the plan totalled 3,048, 4,048 and 3,372 in 1997, 1996 and 1995, respectively.

A second stock plan, intended to replace the directors' "Retirement Plan for Non-Employee Directors", provides for the issuance of share units equal to the amount that would have been credited to the Retirement Plan, divided by the market price of the Company's stock on December 1 of each year. These units receive dividends in the form of additional units equal to the cash value divided by the market price on the payment date. During 1996 the directors could elect to convert to this plan. Stock units totaling 6,716 and 14,960 were provided for in 1997 and 1996 respectively.

The Company has adopted only the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". Had compensation costs been determined based on the fair value of the stock option awards granted in 1997 and 1996, net income and earnings per share would have been reduced to the proforma amounts indicated below *(in thousands, except earnings per share)*:

	1997	1996
Net income – as reported	**$676,961**	$494,313
Net income – proforma	**672,145**	492,722
Earnings per share – as reported	**$7.84**	$5.39
Earnings per share – proforma	**$7.78**	$5.37

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	1997	1996
Dividend yield	**2.64%**	2.66%
Risk free interest rate	**5.37%**	5.96%
Expected volatility	**18.49%**	19.28%
Expected lives	**10 years**	10 years

Total stock based compensation recognized in net income was $3.2 million and $1.3 million in 1997 and 1996, respectively.

Options

Following is a summary of stock options and related activity:

	Year ended November 30,			
	1997		1996	
	Number of Shares	**Exercise Price Range per Share**	Number of Shares	Exercise Price Range per Share
Outstanding at beginning of year	**2,112,148**	**$5.00-$35.36**	2,228,582	$5.00-$27.07
Granted	**1,006,990**	**$37.75-$51.88**	487,400	$31.19-$35.56
Exercised	**(346,241)**	**$5.00-$22.75**	(600,938)	$5.00-$22.75
Repurchased and canceled	**(200)**	**$18.75**	(2,896)	$18.75-$22.75
	2,772,697	**$12.75-$51.88**	2,112,148	$5.00-$35.36
Options exercisable	**1,135,598**		1,180,382	
Options available for grant	**4,469,701***		3,265,304*	

** Available for grant includes shares which may be granted on either stock options or restricted stock.*

Voting

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

10 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.

11 Premiums

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

	Year ended November 30, 1997	1996	1995
Gross premiums written	**$441,290**	$729,446	$698,020
Reinsurance premiums ceded	**(124,664)**	(132,334)	(3,683)
Net premiums written	**316,626**	597,102	694,337
Change in unearned and prepaid premiums	**224,027**	(79,210)	(136,288)
Net premiums earned	**$540,653**	$517,892	$558,049

12 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.

13 Dividends

In 1997, four regular quarterly dividends were paid, three of $0.32 per share to shareholders of record at February 6, April 22 and July 11, and one of $0.40 per share to shareholders of record at September 25.

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.

14 Taxation

Under current Cayman Islands law, EXEL will not be obliged to pay any taxes in the Cayman Islands on its income or gains 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. and X.L.I. 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.

15 Foreign Exchange

At November 30, 1997, 1996 and 1995, forward foreign exchange contracts having notional principal amounts of $859.3 million, $683.3 million and $127.2 million, respectively, were outstanding. At November 30, 1997, the market value of the outstanding forward foreign exchange contracts was $862.0 million. Contracts with a notional principal amount of $185.3 million and a market value of $188.0 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. The balance of the contracts are utilized to reduce the foreign exchange risk on foreign currency assets, 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 $2.7 million for the year ended November 30, 1997.

16 Financial Instruments

In accordance with its current investment guidelines, the Company may invest up to 30% of its investment portfolio in equity securities. This exposure may 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, 1997 and 1996, the portfolio held $188.8 and $248.2 million, respectively, in positions of S&P 500 Index futures together with fixed maturities, short-term investments and cash amounting to $189.2 and $247.6 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, 1997 and 1996, net realized gains from index futures totalled $46.3 and $37.4 million, respectively.

With the introduction of new fixed maturity and equity managers earlier in 1997, certain managers may utilize derivative instruments to add value to the investments they manage where they believe market inefficiencies exist. All managers are restricted from leveraging their derivative positions. At November 30, 1997, bond and stock futures outstanding were $302.5 million with underlying investments having a market value of $2.1 billion. For the year ended November 30, 1997 net realized gains from bond and stock futures totalled $19.5 million.

17 Statutory Financial Data

Under The Insurance Act, 1978, amendments thereto and related regulations of Bermuda (the "Act"), X.L. and XLGRe 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.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.

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

	Year ended November 30,				
	X.L.			XLGRe	
	1997	1996	1995	**1997**	1996
Statutory capital and surplus	**$882,366**	$872,586	$807,264	**$512,637**	$271,398
Minimum statutory capital and surplus required by the Act	**$310,240**	$302,089	$332,089	**$100,000**	$100,000

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 only allows 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 $1.5 billion, 1.1 billion and $930 million at November 30, 1997, 1996 and 1995, respectively. XLGRe was classified as a Class 4 reinsurer upon its incorporation.

Net income of X.L. calculated under Bermuda statutory accounting principles was $196.3 million and $367.3 million for the years ended November 30, 1997 and 1996, respectively. The principal differences between statutory capital and surplus and statutory net income and shareholders' equity and net income on a GAAP basis relate to deferred acquisition costs and the accounting for the investments of X.L. in its subsidiaries. Net income for XLGRe under these regulations was $58 million and $21.4 million for the years ended November 30, 1997 and 1996, respectively.

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.

18 Unaudited Quarterly Financial Data

The unaudited quarterly financial data for 1997 and 1996 follows *(U.S. dollars in thousands, except per share amounts)*:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1997				
Net premiums earned	**$119,837**	**$129,817**	**$138,034**	**$152,965**
Net investment income	**51,557**	**54,160**	**56,109**	**54,726**
Realized gains (losses)	**32,613**	**126,313**	**116,400**	**60,613**
Equity in net income of affiliates	**13,155**	**15,739**	**16,219**	**20,769**
Total revenues	**$217,162**	**$326,029**	**$326,762**	**$289,073**
Income before income tax expense	**$110,711**	**$211,842**	**$207,438**	**$152,049**
Net income	**$108,118**	**$211,580**	**$206,560**	**$150,703**
Net income per share and share equivalent	**$1.23**	**$2.46**	**$2.41**	**$1.75**
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 affiliates	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

19 Accounting Standards

The Financial Accounting Standards Board ("FASB") issued SFAS No.128, "Earnings per Share", effective for fiscal years ending after December 15, 1997. Earlier application is not permitted. This statement simplifies the standards in APB-15 for computing earnings per share by replacing primary earnings per share (EPS) with basic earnings per share. Neither basic nor diluted EPS as calculated in accordance with SFAS 128 would be materially different from primary and fully diluted EPS as presented in these financial statements and by altering the calculation of diluted earnings per share, which replaces fully diluted earnings per share.

FASB also issued SFAS No. 129, "Disclosure of Information about Capital Structure", effective for fiscal years ending after December 15, 1997. This statement consolidates existing disclosure requirements and eliminates the exemption for non-public entities for certain disclosure.

FASB issued Statement of Financial Accounting Standard No. 130 ("SFAS 130"), "Reporting Comprehensive Income", which the Company will be required to adopt for fiscal year 1998. This statement will require the Company to report in the financial statements, as an addition to net income, comprehensive income and its components including, as applicable, foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. Upon adoption, the Company will also be required to reclassify financial statements for earlier periods provided for comparative purposes. The Company currently expects that the effect of adoption of SFAS 130 may be primarily from foreign currency translation adjustments and has not yet determined the manner in which comprehensive income will be displayed.

FASB issued Statement of Financial Accounting Standards No. 131, ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information", which the Company will be required to adopt for fiscal year 1998. This statement established standards for reporting information about operating segments in annual financial statements and requires selected information about operation segments in interim financial reports issued to shareholders. It also established standards for related disclosures about products and services, geographic areas and major customers. Under SFAS 131, operating segments are to be determined consistent with the way that management organizes and evaluates financial information internally for making operating decisions and assessing performance. The Company has not yet determined the impact of the adoption of this new accounting standard on its consolidated financial statement disclosures.

Apart from SFAS No. 131, these new standards are expected to have a minimal impact on the Company's financial statements and disclosures.

20 Investment in Affiliate

Summarized condensed financial information of Mid Ocean Limited, a 25% owned affiliate, which is accounted for by the equity method, is as follows:

Income Statement Data

	Year ended October 31,		
	1997	1996	1995
Net premiums earned	**$486,741**	$436,097	$379,390
Net investment income	**103,429**	83,261	73,835
Net realized gains on sale of investments	**9,603**	2,126	1,476
Net income	**245,008**	211,644	182,935
Company's share of net income	**$62,038**	$59,249	$51,074

Balance Sheet Data

	October 31,	
	1997	1996
Cash, investments and accrued interest	**$1,703,393**	$1,539,259
Other assets	**567,212**	483,440
Total assets	**$2,270,605**	$2,022,699
Reserves for losses and loss expenses	**479,160**	422,252
Reserves for unearned premiums	**307,166**	287,494
Other liabilities	**111,318**	195,754
Shareholders' equity	**1,372,961**	117,199
Total liabilities and shareholders' equity	**$2,270,605**	$2,022,699
Company's share of shareholders' equity	**$340,783**	$314,256

The Company received dividends from its affiliate of $29.0, $13.0 and $7.4 million for the years ended November 30, 1997, 1996 and 1995, respectively.

Directors

Robert Clements	*(2) (3)*	*Chairman, Risk Capital Holdings, Inc.*
Michael P. Esposito, Jr.	*(3) (4)*	*Chairman, EXEL Limited*
Gilbert Gould	*(1)*	*Manager of Financial Services, Southern California Edison Company*
Ian R. Heap	*(1)*	*Former Chairman, EXEL Limited*
John Loudon	*(3) (4)*	*Chairman, Caneminster Linited*
Brian O'Hara	*(3)*	*President and Chief Executive Officer, EXEL Limited*
Robert V. Hatcher	*(2)*	*Retired Chairman, Johnson & Higgins*
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	*(2) (4)*	*Senior Vice President and Director, Bechtel Group, Inc.*

Michael P. Esposito, Jr., *Chairman, EXEL Limited*

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

K. Bruce Connell
Executive Vice President

Robert J. Cooney
Executive Vice President

Robert Lusardi
Executive Vice President and Chief Financial Officer

Gavin R. Arton
Senior Vice President, Investor Relations and Corporate Planning Officer

Paul S. Giordano
Senior Vice President, General Counsel and Secretary

Christopher V. Greetham
Senior Vice President, Chief Investment Officer

David Kaplon
Senior Vice President

X.L. INSURANCE COMPANY, LTD.

Brian M. O'Hara
Chairman and Chief Executive Officer

Robert J. Cooney
President and Chief Operating Officer

P. Richard Hackenburg
Executive Vice President, Customer Business Solutions

Richard R. Morano
Executive Vice President, Organizational Development

Michael A. Siese
Executive Vice President and Chief Financial Officer

William M. Thornhill
Executive Vice President and Chief Underwriting Officer

Keith Fisher
Senior Vice President

Richard Leone
Senior Vice President

Pamela Martin
Senior Vice President

Paul Miller
Senior Vice President

James J. Ansaldi
Managing Director

Paul Dowden
Managing Director

Philip Grierson
Managing Director

Angelo Guagliano
Managing Director

Robert Klepper
Managing Director

Lyle McCoy
Managing Director

James Miller
Managing Director

X.L. GLOBAL REINSURANCE COMPANY, LTD.

Brian M. O'Hara
Chairman and Chief Executive Officer

K. Bruce Connell
President and Chief Operating Officer

Robert Nason
Executive Vice President, Chief Underwriting Officer

Stephen S. Outerbridge
Senior Vice President,

William Fanning
Senior Actuary and Underwriter

James McNichols
Senior Actuary and Underwriter

John Boylan
Managing Director, London Representative Office

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 Tuesday, March 31, 1998 at the Hyatt Regency Grand Cayman, Grand Cayman, Cayman Islands, British West Indies, 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 1997 and 1996.

	1997		1996	
	High	**Low**	High	Low
	$	**$**	$	$
First Quarter	**45.000**	**36.500**	35.938	29.813
Second Quarter	**44.500**	**39.000**	36.375	34.125
Third Quarter	**57.500**	**44.500**	36.688	33.063
Fourth Quarter	**64.000**	**55.063**	40.125	31.875

As of November 1997, the approximate number of record holders of Ordinary Shares was 209.

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.

Auditors

Coopers & Lybrand, Dorchester House, 7 Church Street, Hamilton HM 11, Bermuda.

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

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

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Corporate Offices

EXEL LIMITED

X.L. INSURANCE COMPANY, LTD.

Cumberland House
9th Floor
1 Victoria Street
Hamilton HM 11
Bermuda

Telephone: (441) 292-8515
Fax: (441) 292-5280

Internet Homepage:
http://www.xl.bm

E-Mail:
info@xl.bm

X.L. EUROPE INSURANCE

La Touche House
International Financial
Services Centre
Dublin 1
Republic of Ireland

Telephone: 353-1-670-0966
Fax: 353-1-670-0970

X.L. AUSTRALIA PTY LTD.

L49 Governor Phillip Tower
1 Farrer Place
Sydney, NSW 2000
Australia

Telephone: 61 2 9247 3133
Fax: 61 2 9247 3062

X.L. GLOBAL REINSURANCE COMPANY, LTD.

Wessex House
45 Reid Street,
Hamilton HM 12
Bermuda

Telephone: (441) 295-7135
Fax: (441) 295-5602

X.L. GLOBAL REINSURANCE COMPANY, LTD.

London Representative Office:
One America Square
17 Crosswall
London EC3N 2LB

Telephone: 171-650-3600
Fax: 171-481-3000