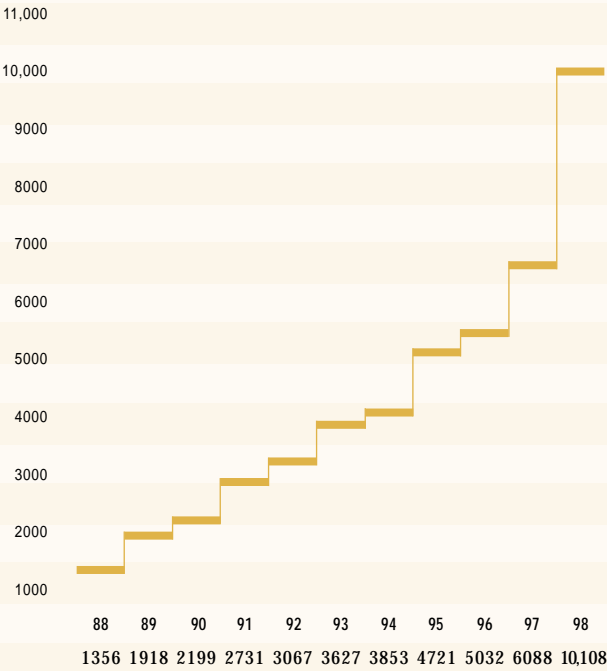




Financial Highlights

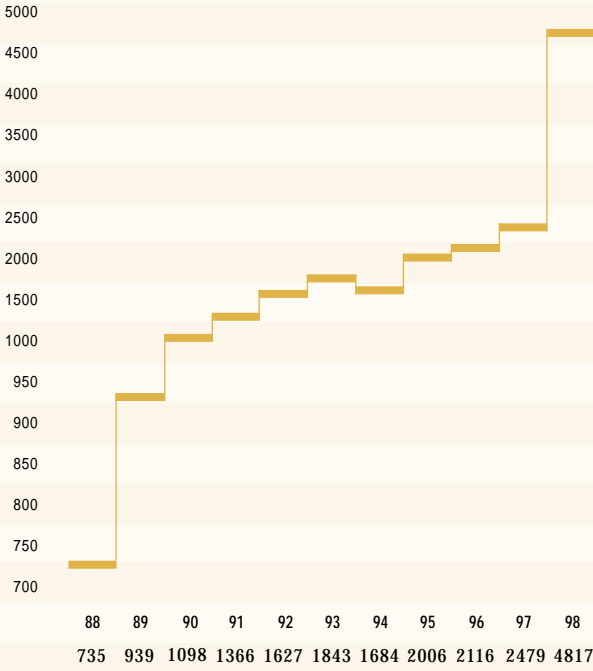
TOTAL ASSETS

(at November 30, in millions U.S. dollars)



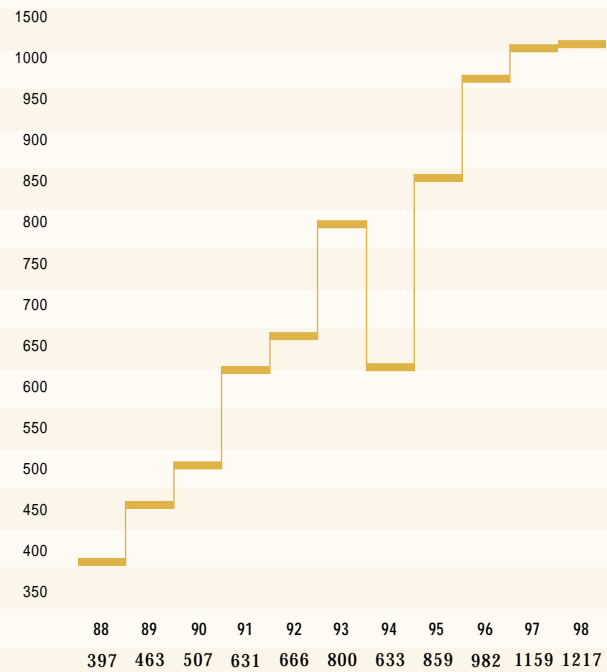
SHAREHOLDERS' EQUITY

(at November 30, in millions U.S. dollars)



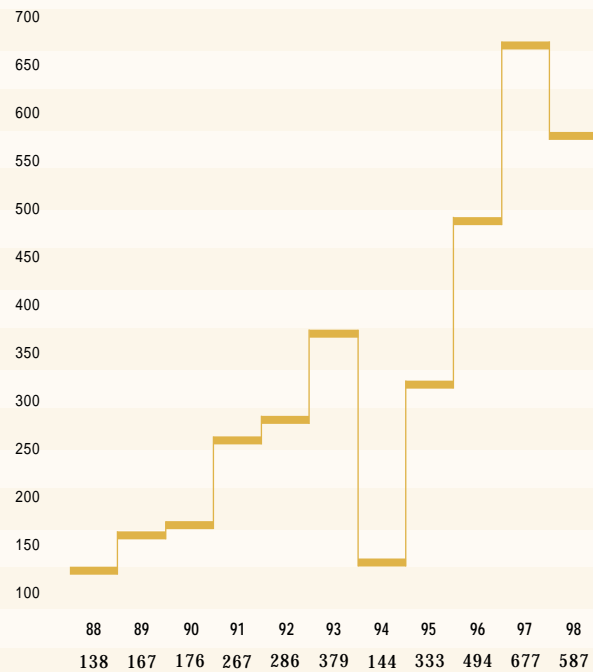
REVENUES

(at November 30, in millions U.S. dollars)



NET INCOME

(at November 30, in millions U.S. dollars)



In 1998, your Company earned \$588 million, or \$6.20 per share in net income. Despite significant events impacting the insurance and investment markets during the year, this is its second highest level ever. Revenues, total assets and shareholders' equity reached record levels and return on equity was a satisfactory 18 percent.

Revenues exceeded \$1.2 billion for the first time and total assets moved up from \$6.1 billion to \$10.1 billion. Shareholders' equity rose to \$4.8 billion from \$2.5 billion. The market value of the Company's shares exceeded \$8 billion at November 30, 1998 compared to \$5.2 billion in 1997. The Company recorded a lower level of net income compared to 1997's record level of \$677 million because realized investment gains declined to \$192 million in 1998 from \$336 million in 1997, primarily as a result of the turbulent financial markets in the latter part of the year.

With just over 500 employees in its key commercial operating units, on a per employee basis, XL remains one of the most productive organizations in almost any business, with enviable per employee statistics: revenues per employee of \$2.4 million; capital per employee of \$9.5 million; and, net income of \$1.2 million per employee.

A YEAR OF MAJOR ACCOMPLISHMENTS

1998 stands out as a year of major accomplishments. XL demonstrated the value of its focus on applying financial and intellectual capital for maximum return. During the year, in addition to excellent operating results, the Company:

- Completed a merger with Mid Ocean Limited ("Mid Ocean") resulting in XL becoming the pre-eminent property catastrophe reinsurer in

the world and the owner of The Brockbank Group plc ("Brockbank") the third largest underwriting syndicate manager at Lloyd's;

- Established X.L. Insurance Company of America, Inc. ("XL America") as an admitted company, building our presence in the United States;
- Initiated and placed an innovative swap retrocessional property catastrophe cover;
- Expanded into financial guaranty insurance;
- Sold its interests in Venton Holdings Limited in order to focus on Brockbank;
- Entered the final stages of the acquisition of Intercargo Corporation to facilitate the growth of Brockbank and other XL entities in the U.S.;
- Continued its stock repurchase program;
- Maintained the highest dividend payout ratio of its peers;
- Increased and strengthened its Board membership; and,
- Recognized its evolution by introducing a new name, that reflects the new role and function of the Company.

THE NEW NAME

The new name, XL Capital Ltd, approved overwhelmingly by shareholders in February 1999, describes what the company does – it provides and manages the primary sources of financial and intellectual capital for its operating subsidiaries and affiliates.

The new name will also facilitate the development of a global brand name under which the Company can market all products and services. Most of the Company's operating companies and units will use the "XL" prefix in their names, giving them a uniform look and

clearly identifying the link between the Company and its “XL” subsidiaries.

VISION, MISSION AND STRATEGY

This year’s excellent results reflect the concept that has guided XL to consistent leadership in its field. The Company strives to be the best in all of its pursuits, and the vision, mission and strategy for XL to continue the time-proven means and ends that have given us 13 years of growth as a consistent top performing insurance, reinsurance and financial services organization.

The Company’s mission is to build sustainable competitive advantages in insurance, reinsurance and financial services through superior products and services, with effective and efficient delivery to the marketplace and an ever-increasing use of technology.

XL’s strategy is to increase its capabilities to meet customers’ growing and ever changing needs. Strategic partnering and merger and acquisition activities have concentrated on this, while maintaining a clear focus on key areas of the market where the Company can achieve competitive advantages and thus excel without losing sight of its

scale of operations.

BUILD OPPORTUNISTICALLY FROM STRENGTH

XL is built on STRENGTH that will provide a world of OPPORTUNITY for which the organization has reached a high state of

BRIAN M. O’HARA
President and Chief Executive Officer

“We will continue to create growth by winning new customers with new products and capabilities.”



preparedness.

This strength has many sources and forms:

A strategic review of XL’s capabilities concluded that the Company has a number of core strengths, notably: a large unencumbered ‘pristine’ balance sheet; very high financial ratings – AA from S&P and A+ from A.M. Best; recognized underwriting expertise in key areas of operation; customer franchises incorporating the largest organizations in each area of operations; the efficiencies of being based in Bermuda; and relatively low expenses. In an active merger and acquisition environment, these strengths are valued by other quality franchises.

Many of the Company’s efforts to expand its business are driven by the realization that one of the differentiating features of XL is its ability to operate in an environment of flexibility. An open, entrepreneurial, inclusive partnership culture encourages continuous learning and teamwork within and among XL’s operating companies. In combination, it is expected that the Company’s opportunities and preparedness will produce and sustain a winning environment.

Foremost among current opportunities is the achievement of a broader business base with Mid Ocean and other mergers and acquisitions to build on. These combinations bring access and skill-sets, use of “virtual” talent, and multi-channel distribution.

Our merger with Mid Ocean, in which XL had been a founding investor and owned more than 25 percent at the time of the merger, made the Company one of the 10 largest property-casualty companies listed on the U.S. stock exchanges, in terms of market capitalization. The integration

of these two superb franchise organizations has been a seamless one without disruption among staff or with client companies.

In March, XL America was established in the United States as an admitted company, building XL’s presence in the United States. XL America allows us to reach customers who have not traditionally accessed the Bermuda market.

In the latter part of the year, the Company sold its interests in Venton to focus on newly acquired Brockbank and concentrate on building an even better Lloyd’s-based business. Activities in this respect include the pending acquisition of Intercargo Corporation, an Illinois-based publicly traded specialty insurer, which is licensed in 48 states. The Company will use Intercargo to further Brockbank’s and other XL entities’ growth in the United States.

During the year, the Company repurchased over 4.4 million shares of its stock. Share repurchase continues as a strategic tool for capital management.

The quarterly dividend paid to shareholders was increased by 10 percent in September and is now \$0.44 per share, which represents a current annual payout ratio of approximately 2.8 percent, the highest payout ratio of XL’s peers.

INNOVATION

Yet another area of opportunity is found in customers increasingly asking for financial product enhancements or alternatives to traditional insurance coverages. XL intends to meet the challenges of their enlarged vision of risk management by seeking to lead in the develop-

ment of products that meet and indeed anticipate customers' needs.

In pursuing this goal, the Company will be guided by the knowledge and experience that have taught us that innovation must have due regard for uncertainties, both known and unknown, and that there must be limits to ambition, dictated by prudent judgment and sound principles.

Showing how opportunity and preparedness can stimulate innovation, in August 1998 the Company initiated and placed a novel form of retrocessional property catastrophe cover as a financial swap, utilizing the capital markets to cover reinsurance losses incurred by our newly combined reinsurance operations.

As noted at the time: "Insurance risk transfer to the capital markets is only in its formative stages and it is unclear in which direction this market will develop, how cost effective it will be as an alternative to the more traditional markets, and how it will interact with those markets. XL intends to participate fully in all facets of the insurance capital markets as they emerge. It will not only act as an issuer of insurance securities, but will also continue as a purchaser of risks in swap or bond form, using its underwriting knowledge and skills to act as a manager of the Company's and other investors' funds for this asset class as it develops."

Financial guaranty insurance is an area that XL expanded into during 1998. It has similar risk characteristics to the Company's original long-tailed general liability business, with low expected loss frequency, and benefits from investing the premiums for long periods of time

before losses are paid.

Another example of the Company's ability to successfully partner with companies with intellectual capital and expertise to complement XL's, is the joint venture with Financial Security Assurance Holdings Ltd. ("FSA"), where two companies were jointly formed to write financial guaranty insurance in Bermuda. One carries FSA's AAA rating and the other XL's AA rating. The financial guaranty business in the U.S. has been concentrated on providing AAA-rated credit enhancement and is conducted by a few companies, required to be mono-line underwriters. Internationally, financial guaranty insurance is still a relatively new line of business, where the credits requiring enhancement may not need a AAA rating. The two-tiered approach with FSA will enable XL to grow in this area. Additionally, as part of this initiative and reflecting the partnership nature of this joint venture, XL received a 6 percent ownership stake in FSA.

Following the merger with Mid Ocean, XL increased its focus on preparedness and concluded that it was appropriate to consolidate all of the Company's financial and capital products initiatives in a single organization called XL Capital Products, building on the early successes of XL's specialty reinsurance business. With enhanced capabilities, the Company is uniquely positioned to develop a substantial book of financial risk products, at a time when the insurance and capital markets are converging. The structural reinforcement provided by XL Capital Products will also give the Company's operating units a more versatile platform to meet their clients' increasing non-traditional insurance and

risk transfer needs.

A WINNING TEAM

Perhaps the most enduring of XL’s strengths is its people. From its beginning 13 years ago, XL has sought and attracted and has developed seasoned professionals of the highest caliber to create a winning team environment. XL is proud of its record of never having lost a senior operating executive to another company. In this new era of financial services convergence, XL is building a financial services enterprise comprising leading edge insurance, reinsurance and financial products franchises. The Company intends to continue to attract top tier talent and create growth by winning new customers with new products and capabilities . . . and because winning is not only rewarding but FUN!

To better serve the markets in which XL operates, the Company has been structured into four key operating units: insurance, reinsurance, Lloyd’s and capital products.

This report features the key executives who lead the major areas of the Company. XL may now justly claim to have built one of the strongest management teams in this industry. XL’s intellectual or human capital is one of the Company’s strongest assets and it intends to develop, acquire or partner with people who can lead this organization to the forefront of its markets.

Mark Brockbank is the Chief Executive of The Brockbank Group plc, acquired in our merger with Mid Ocean, bringing one of the three largest Lloyd’s syndicate managers into the XL fold. He is an acknowledged market leader at Lloyd’s, and

the Brockbank syndicates have a long history of top performance among all syndicates at Lloyd’s.

Bruce Connell, formerly head of reinsurance operations, is now building the Company’s new XL Capital Products unit, following successes in developing XL’s overseas offices and specialty reinsurance. In his new capacity, he oversees the Company’s expansion into the intersection of insurance, financial guarantees and capital markets, including its strategic ventures and securitization initiatives, most notably with FSA. XL Capital Products is off to a terrific start.

Bob Cooney, CEO of XL Insurance Ltd, (“XL Insurance”) led the reorganization of the Company’s insurance operations into Customer Business Units, which are focused on providing all aspects of enterprise-wide risk protection for corporate customers. Bob’s responsibilities include XL’s Bermuda insurance operations and X.L. Europe Insurance. XL Insurance continues to have one of the world’s pre-eminent excess liability franchises.

Henry Keeling, previously head of Mid Ocean Reinsurance Company Ltd., was appointed President and Chief Executive Officer of the combined Bermuda-based reinsurance operations following the merger of the two organizations. Henry has many years of experience gained at Lloyd’s and has been involved with Mid Ocean since its formation. XL Mid Ocean Re is one of the largest and strongest franchises in the property reinsurance business.

Rob Lusardi joined XL in 1998 as Chief Financial Officer, a timely and welcome addition to our professional financial skill set. He joined

XL from Lehman Brothers and brings key strategic and analytic expertise at a time when the holding company's capital commitments are increasing and when it is expanding in the capital markets and financial guaranty areas. Rob is leading XL's efforts to build the organization through selected partnership and merger and acquisition activity.

Chris Greetham, the Company's Chief Investment Officer, is responsible for a \$6.5 billion investment portfolio. Utilizing external portfolio managers operating on a total investment return basis, the Company has delivered superior returns. Chris is also building an array of leading investment management partners including Pareto Partners, and XL's just announced investment in Highfields Capital Management LP, a value-oriented global equity investment management firm.

All of XL's employees have again done an outstanding job this year, operating in increasingly competitive markets under changing conditions. The Company's intellectual capital and esprit de corps continue to be vital to its success as an organization.

XL welcomed five new Board members following the merger with Mid Ocean: Robert Newhouse (Mid Ocean's Chairman) and Michael A. Butt (President and Chief Executive Officer of Mid Ocean) who will also serve as consultants; Sir Brian Corby, Robert Glauber and Paul Jeanbart.

I would also like to acknowledge the support of the Board of Directors in 1998. It was a year of unprecedented activity for the Company and we have benefited greatly from their advice

and direction under the invaluable leadership of our Chairman, Michael P. Esposito, Jr.

Gilbert Gould, a director since 1986, resigned from the Board this year when he became Chief Underwriting Officer of a U.S. insurance company. XL wishes him well in his recent career move and thanks him for his valuable service to XL's Board from the beginning.

XL's focus will remain on its customers. Working through its broker/intermediary partners, the Company creates opportunities for its customers to reduce their insurance, reinsurance and financial risks and business exposures, thereby enabling them to achieve better results. At the same time XL aims to provide these timely and desired services at an appropriate return for its shareholders . . . hence the new name, XL Capital Ltd, and the new slogan:

"Turning Risk Into Return"

As this report goes to press, I am pleased to announce that the Company has signed a definitive agreement to merge with NAC Re Corporation, the eighth largest U.S. reinsurance organization based on dedicated statutory capital. This transaction, when completed, should further distinguish XL from its competitors and reflects the Company's commitment to provide capacity to differentiated markets. Additional details will be shared with our shareholders, clients and brokers as this transaction moves forward.



Brian M. O'Hara
President & Chief Executive Officer

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 44 through 65 of this Annual Report.

FINANCIAL HIGHLIGHTS

XL produced total income for its shareholders of \$6.63 per share, comprising \$4.61 in reported core operating income and \$2.02 in realized capital gains, and paid dividends of \$1.64 during fiscal 1998. Book value per share increased to \$42.79 from \$29.33.

Reported core operating income was \$437 million, or \$4.61 per share in 1998, compared with \$347 million, or \$4.02 per share in 1997. The Company reports its operating earnings on an economic basis excluding realized capital gains, the amortization of goodwill, the effect of early bond refundings in the financial guaranty business and, in 1998, one time realignment charges associated with the Mid Ocean merger.

Management believes that this method of calculating operating income provides the most accurate measurement of the Company's true operating income performance since it excludes non-economic expenses, such as goodwill amortization, which do not affect cash flows generated

from operations. It also excludes extraordinary gains or losses and non-recurring charges.

GAAP operating income, which includes the amortization of goodwill, before realized investment gains, was \$413 million, or \$4.36 per share, in 1998, compared with \$341 million, or \$3.95 per share, in 1997.

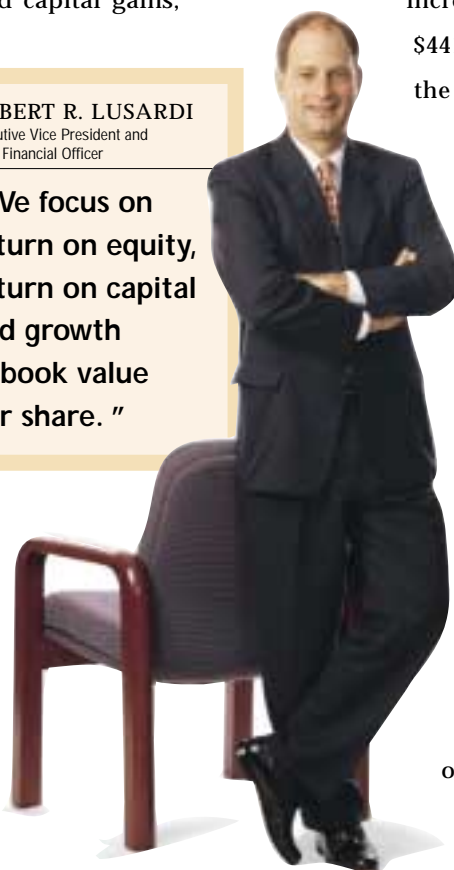
Net income for 1998, including realized investment gains, the amortization of goodwill and a one-time charge of \$17.5 million in 1998 related to the integration of Mid Ocean, was \$588 million, or \$6.20 per share, compared with \$677 million, or \$7.84 per share, a year ago. The principal reason for the decrease is that reported investment gains in 1998 were \$192 million, or \$2.02 per share, versus a record level of realized gains of \$336 million, or \$3.89 per share, in 1997.

Gross premiums written increased to \$807 million from \$441 million, primarily reflecting the inclusion of Mid Ocean's book of business since the merger and the first full year of premiums from 1997's acquisition of GCR Holdings Limited. Net earned premiums were \$685 million in 1998 compared with \$541 million in 1997.

The combined ratio for the Company in 1998 was 83.3 percent compared with 1997's 85.8 percent. The reduction reflects a shift in the mix of business to shorter tailed risks and a lower level of incurred losses in 1998.

ROBERT R. LUSARDI
Executive Vice President and
Chief Financial Officer

"We focus on
return on equity,
return on capital
and growth
in book value
per share."



The loss and loss adjustment expense ratio was 57.0 percent in 1998 versus 67.6 percent in 1997, and the underwriting and administrative expense ratios for the respective 1998 and 1997 periods were 26.3 percent and 18.2 percent.

Notwithstanding highly competitive markets, XL continually attempts to generate an underwriting profit on its insurance products by maintaining underwriting discipline on pure risk transfer products and by attempting to create products which solve customer's specific risk needs. Except for investment-related products, the Company does not take into account expected cash flows or investment income in pricing decisions. This underwriting philosophy has enabled XL to write at a combined ratio less than 100 percent in every year of its history, including 1998.

XL's balance sheet changed significantly during 1998, primarily as a result of the Mid Ocean merger. Total assets exceeded \$10 billion for the first time in 1998, rising to \$10.1 billion at November 30, 1998 from \$6.1 billion a year ago. More importantly, investment assets reached \$6.5 billion. One of XL's goals is to increase the ratio of investment assets and hence investment income per equity dollar.

Shareholders' equity at the end of the fiscal year increased to \$4.8 billion from \$2.5 billion at year-end 1997. Diluted book value per share increased to \$42.79 at the

end of 1998 from \$29.33 at November 30, 1997. The increase in total assets, shareholders' equity and book value per share reflects strong investment results, the inclusion of the net assets of Mid Ocean and the impact of share repurchases by the Company during the year. Including the repurchase of XL and Mid Ocean shares in conjunction with the merger of the two companies, the Company repurchased 4.4 million shares for \$351 million during fiscal 1998.

INSURANCE OPERATIONS

The Company's insurance business is underwritten by XL Insurance Ltd and its wholly owned subsidiaries X.L. Europe Insurance, X.L. America, Inc. ("XL America"), together with XL Financial Assurance. Gross premiums written in 1998 were

\$424 million compared with \$418 million a year ago. Net premiums earned were \$302 million compared with 1997's \$376 million. It should be noted that certain specialty liability programs written by XL Insurance Ltd are not included in these premium amounts, but are reported as "Reinsurance - Other" in XL's financial statements.

Globally, insurance markets remain extremely competitive as pricing for most insurance product lines has become increasingly commoditized. XL's general liability book has been negatively impacted by

ROBERT J. COONEY
President and Chief Executive Officer
XL Insurance Ltd

"We offer added value in products, services and tailored solutions for client risk issues. "



pricing competition, as underwriters attempt to maintain underwriting discipline and renew only those accounts where they are able to do so at appropriate price levels and underwriting terms. On those accounts where the Company has a long-term and profitable relationship, it has often increased its attachment point to remain on the account while moving further away from risk which appears to be aggressively priced. This allows the Company to reduce its exposure to loss, but retain key account relationships. The adjusted general liability retention ratio was 86 percent for 1998 compared with 83 percent in 1997. The average attachment point for general liability accounts moved up to \$135 million in 1998 from \$104 million in 1997, with the average limit written being \$84 million versus \$86 million, in the respective periods.

Other liability lines, which include directors and officers liability, professional liability and employment practices liability, recorded an increase in premiums in 1998, driven by a significant number of new accounts written in professional liability and employment practices liability. Excess property insurance remains a competitive but stable line for the Company and an important component of its XL Risk Solutions initiative.

The Company's financial products business has grown significantly in 1998 and contributed to the increase in gross premiums written. Clients are increasingly seeking enterprise-wide integrated risk protection. This allows them to consolidate their risk protection needs through broader coverages and with reduced administration. XL's insurance operations have completed their reorganization into Customer Business Units ("CBUs") which focus on customer industry groups. The CBUs combine underwriting expertise

with superior knowledge of specific industries.

XL AMERICA

Although Bermuda remains XL's principal underwriting operation, XL has recognized that there is an enormous potential customer base in North America which has not traditionally accessed XL in Bermuda. Hence, XL America, which is based in Stamford, Connecticut, is an increasingly significant platform for the Company. A number of CBUs will be established at XL America to allow the Company to get closer to the customer and their direct consultants to originate more business for the group. The CBUs will be supported by teams specializing in integrated risk, middle market programs and financial products and services.

XL EUROPE

X.L. Europe Insurance ("XLE") had a strong year in 1998 and has strengthened its capabilities in Europe, in particular through the establishment of dedicated London and European market units. In addition, XLE markets the Company's excess insurance products in the Middle East, Africa, Australia and Asia. Although international markets remain extremely competitive, XLE increased its gross premiums written to \$105 million in 1998 from \$55 million in 1997.

XL Prevent was launched by XLE in 1998 to target the employers' liability market in the United Kingdom ("UK"). It has enjoyed early success in that market writing business on a non-traditional basis in combination with risk management and claims management services.

REINSURANCE OPERATIONS

The Company's focus on reinsurance was significantly increased again this year by its merger with

Mid Ocean, the parent of Mid Ocean Reinsurance Company, Ltd. ("Mid Ocean Re"), in August. This followed the acquisition of GCR Holdings Limited in 1997. XL now has one of the pre-eminent property and specialty reinsurance operations in the industry. The combination of all of the Company's reinsurance operations has been integrated into a single unit, XL Mid Ocean Reinsurance Ltd ("XL Mid Ocean Re").

Gross premiums written for 1998 were \$262 million compared with \$23 million in 1997. In 1997, gross premiums were reduced by the cancellation and reissue of certain specialty reinsurance assumed treaties. Net earned premiums were \$310 million compared with \$164 million in 1997.

Prior to its merger with Mid Ocean, the Company's reinsurance operations were dominated by property catastrophe coverages. XL's reinsurance business has been significantly diversified by the combination of Mid Ocean Re and XL Global Reinsurance Company Ltd. Property catastrophe now represents approximately 34 percent of the reinsurance book and less than 11 percent of XL's premium base. Additionally, non-catastrophe property, marine, energy, aviation and satellite are now major categories of reinsurance business for the Company.

Despite the considerable consolidation in the reinsurance industry that has taken place over the last few years, strong competition continues in all sectors. This is true in all parts of the world where XL conducts business. Underwriting discipline and diversification, both geographically and by line of business, are key components of its reinsurance strategy. XL Mid Ocean Re, headquartered in Bermuda, also operates from offices in London, Munich and Singapore, which are major centers for reinsurance.

The Company was negatively impacted by significant losses from Hurricane Georges which devastated Puerto Rico, claims on its satellite book and from a major aviation loss, but overall the market experienced a modest level of large natural peril and individual catastrophic losses again this year.

Maintaining relationships with quality clients and producing brokers is key in a difficult market. This process is supported by sophisticated underwriting models, actuarial and mathematical analysis and ongoing investment in software. XL Mid Ocean Re enjoys strong relationships with more than 80 percent of the Standard & Poor's top 50 Global Business insurers.

LLLOYD'S

The Company became directly involved at Lloyd's following its merger with Mid Ocean this year and the consolidation of The Brockbank Group plc ("Brockbank") into XL. Previously the Company had owned approximately 21 percent of Venton Holdings Limited, which was sold in the latter part of the year, and held indirect participations in two other syndicate managers.

The Company's share of gross premiums written in 1998 by Lloyd's syndicates was \$121 million, with earned premiums representing \$73 million. This is the first year that Lloyd's premiums have been directly reflected in the Company's revenues. Brockbank represents about 6 percent of the capacity at Lloyd's and is poised for significant growth supported by the stability and strength of XL's balance sheet.

Brockbank has good distribution relationships with the world's largest brokers and is building dedicated initiatives for the next tier. It is also well positioned to provide sophisticated solutions

to the middle market which is increasingly demanding multinational programs. Many of the companies operating in this segment are rapidly expanding and require flexibility and a quick response to their changing requirements.

Brockbank is organized into three business units which concentrate geographically on the London Market, the UK and Europe, and North America. The London operation specializes in business which flows to the international markets, in particular the largest accounts and specialty lines. Underwriting leadership is provided in marine, war and political risk, aerospace, professional liability and property programs. In the UK, Brockbank has a strong penetration in the insurance of the largest companies, insuring more than 60 of the FTSE-100 currently, and through its direct tele-sales operating entities, Zenith and Admiral, is a substantial underwriter of UK private motor insurance.

In Europe, the lack of regulatory barriers to cross-border insurance transactions presents the opportunity to build on strong relationships with several coverholders as well as building upon a solid marine insurance presence in several countries, notably Italy and France. In other parts of the world, Brockbank is a significant participant in Lloyd's Japan and has a strong position and good relations

in the Middle East. With the pending acquisition of Intercargo Corporation, the Company is expected to capitalize on writing admitted business in the U.S., supplementing Brockbank's considerable Lloyd's-based North American business.

Brockbank's underwriting operations are conducted principally by its Lloyd's syndicates. The capacity of these syndicates in 1998 was approximately \$882 million, with 37 percent of this capacity owned by corporate capital. For the 1999 underwriting year, the capacity is estimated at approximately \$950 million, and the share of premiums represented by XL's corporate capital will increase to 47 percent, providing the Company with a larger share of Brockbank's 1999 premiums.

XL's business mix changed significantly during 1998 with the inclusion of Brockbank.

While Brockbank shares many of the same underwriting characteristics as XL, such as innovative risk products and a long history of top quartile performance, the financial reporting for Lloyd's results differs quite markedly. The reported combined ratio for Brockbank will likely be higher than that of other XL entities and may in the future cause the Company's consolidated combined ratio to rise to levels higher than XL has historically shown. This one measure,

HENRY C. V. KEELING
President and Chief Executive Officer
XL Mid Ocean Reinsurance Ltd

"We very successfully integrated two reinsurance companies into an even stronger team."



however, significantly understates the true income earned by Brockbank since it does not include fees and profit commissions that it earns as managing agent for 100 percent of the capacity of the syndicates that it manages. Combining the profit fees and commissions with the underwriting results from XL's direct corporate capital participation should in normal years, when viewed as a whole, result in an effective combined ratio of less than 100 percent for its Lloyd's business.

CAPITAL PRODUCTS

The Company has recently formed a dedicated unit, XL Capital Products Ltd ("XL Capital Products"), to manage its financial products and services initiatives. These include its foreign exchange products and its underwriting product relationships with Pareto Partners and Financial Security Assurance Holdings Ltd.

In 1998, the Company participated in a uniquely structured financial guaranty insurance program for a major global equipment leasing organization, underwriting both excess insurance and mezzanine financing layers.

XL Capital Products is building the Company's capabilities at a time when the insurance and financial markets are converging and risk securitization is becoming a more important part of our customers' needs. The skill sets required to underwrite financial risks are different than those utilized in traditional

insurance and reinsurance lines. Credit analysis and surveillance are key to long-term success in this market and the Company has recently hired a senior executive to oversee these areas.

OTHER OPERATIONS

Latin America Re

Latin American Reinsurance Company Limited ("LA Re") was formed in 1997 to concentrate on reinsurance opportunities in that region. The Company owns approximately 75 percent of LA Re which wrote \$23 million of gross premiums in its first year of operations. Proportional treaty business represents the majority of premiums to date, with the bulk of the business coming from Chile, Puerto Rico and Colombia. Expansion into other major countries in this region is underway with additional production efforts focused on Argentina, Brazil and Mexico.

Political Risk Insurance

The Company owns approximately 41 percent of Sovereign Risk Insurance Limited, a joint venture formed with two other insurers in 1997, to underwrite, on behalf of the companies, selected political risk insurance coverages. Sovereign has had a successful first year of operation and has developed a diversified book of business, with clients from 11 industry sectors and 6 countries.

MARK E. BROCKBANK
Chief Executive Officer
The Brockbank Group plc

"Access to Lloyd's licenses is a very efficient way to expand into the international marketplace."



Reeve Court Insurance

During 1998, the Company helped capitalize Reeve Court Insurance Limited, a speciality life and annuity insurer which concentrates on high net worth individuals requiring wealth transfer.

Claims

The Company believes that there are two key items that are necessary to price products correctly. The first is to allocate the proper amount of capital to the risk and the second is to ensure that XL's balance sheet fully reflects its potential liabilities, which in our industry is accomplished through the establishment of appropriate loss and loss adjustment expense reserves for estimates of future claims. Although this process is particularly challenging for XL given the low frequency, high severity nature of its business, the Company uses established actuarial techniques and its own loss history to estimate future liabilities.

Total reserves for unpaid losses and loss expenses increased to \$3.1 billion in 1998 from \$2.3 billion in 1997. Case reserves for reported losses and loss expenses were \$1.4 billion compared with \$863 million. Incurred but not reported losses ("IBNR") increased to \$1.8 billion from \$1.5 billion at the end of 1997. Loss and loss expense payments in 1998 totaled \$366 million versus \$267 million in the previous year. Net additions to loss reserves in 1998 were \$621 million, compared with \$134 million in 1997. A significant portion of the increase in loss

reserves and claims payments reflects the inclusion of Mid Ocean in the Company's results in 1998.

The Company continues to enjoy a superior reputation for claims payment.

Marketing

The continuing consolidation of major brokers has presented the Company with both opportunities and challenges as its sources of business production become more concentrated. While the choice of intermediary has been reduced for the larger accounts which have been XL's traditional focus, working with only one broker on an account allows the Company the opportunity to cross-market its products at a single point of sale.

Marketing efforts in 1998 have been concentrated on creating awareness of the Company's shift from a product-oriented approach to focusing on customer needs. Substantial support has been provided to XL's insurance operations in positioning the customer business units.

Following the Mid Ocean merger, it was determined that a new name and image for the Company was appropriate reflecting the evolution of XL from a single-purpose excess insurer to a

K. BRUCE CONNELL
President and Chief Executive Officer
XL Capital Products Ltd

"We're uniquely positioned to meet our clients' increasing risk needs."



more broadly based global provider of insurance and reinsurance products and financial services. The Marketing Department has been instrumental in developing the Company's new name, updating its logo and creating a new brand for the entire organization. Also, they presented the themes to communicate XL's new value proposition of turning customers' risks into opportunities for them to earn higher returns, as depicted by the Company's new slogan *Turning Risk Into Return*.

Information Technology

XL's information technology has undertaken major steps to increase its capabilities, including the appointment of a new chief information officer.

It has been reorganized into three units, providing support and services to the Company's operating units. Increasingly it is recognized that this is a function that can be conducted from multiple locations and draw on global talent for the design and development of systems applications.

Investments

Net investment income, before realized gains from the sale of investments, in 1998 was a record \$279 million compared with \$217 million a year ago. Net realized gains were \$192 million versus \$336 million in 1997. Total investments, excluding the Company's equity investment in affiliates, increased to \$6.5 billion at

November 30, 1998 from \$4.3 billion a year ago largely reflecting the incorporation of Mid Ocean's investment portfolio in August 1998.

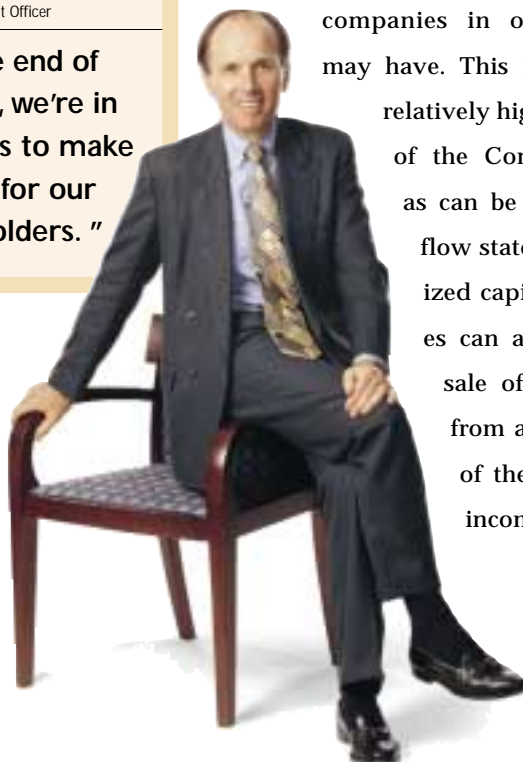
At November 30, 1998, the Company's investment portfolio was comprised of 83 percent fixed income and 17 percent equities, compared with 81 percent fixed income and 19 percent equities a year ago.

XL follows a total return investment strategy whereby it uses outside investment managers who, under guidelines established by the Company, aim to maximize the total return earned on our assets irrespective of whether it is categorized as ordinary income or capital gains. Although it can result in volatility in XL's net income on a year-to-year basis, the Company believes that this approach has generated more return for our shareholders over long periods of time. Also, as a result of its Bermuda domicile,

XL has more flexibility with respect to the allocation of its investment portfolio than companies in other jurisdictions may have. This is reflected in the relatively high annual turnover of the Company's portfolio, as can be seen in XL's cash flow statements. Thus, realized capital gains and losses can arise not just from sale of equities but also from active management of the Company's fixed income investments.

CHRISTOPHER GREETHAM
Executive Vice President and
Chief Investment Officer

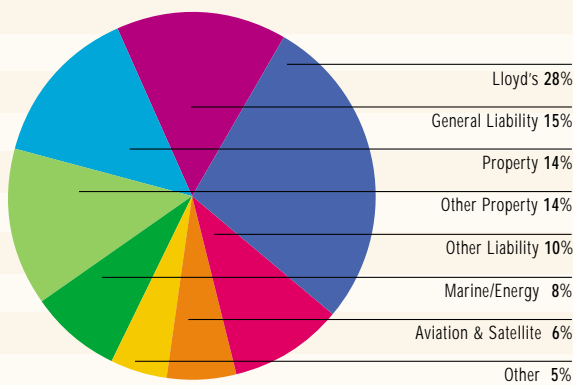
"At the end of the day, we're in business to make money for our shareholders."



Financial Graphs

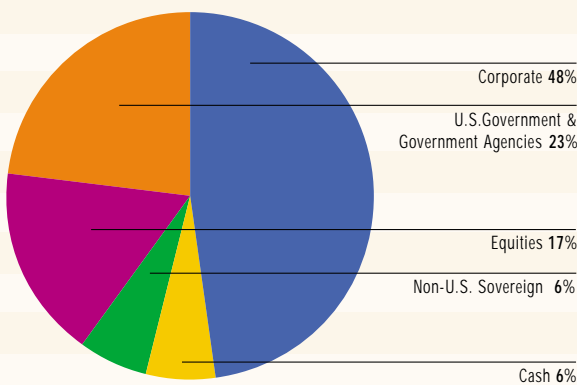
BUSINESS MIX

(1998 Pro Forma Earned Premiums)



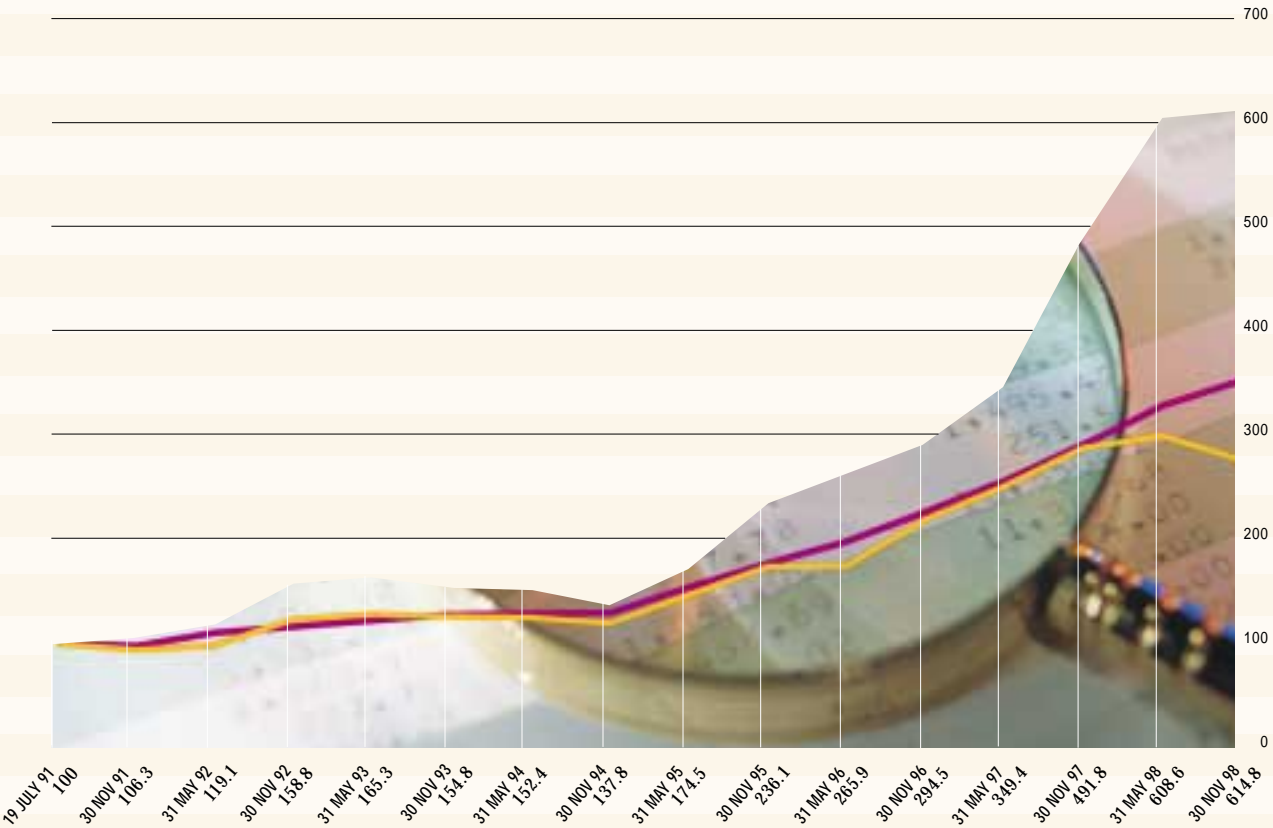
INVESTMENT ASSET MIX

(at November 30, 1998)



CUMULATIVE TOTAL SHAREHOLDER RETURN

- XL (Figures shown)
- S & P 500
- S & P Property Casualty Index



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

	1998	1997	1996	1995
Gross premiums written	\$806,861	\$441,290	\$729,446	\$698,020
Net premiums written	672,044	316,626	597,102	694,337
Net premiums earned	685,200	540,653	517,892	558,049
Underwriting profit	96,853	76,663	33,059	33,525
Net investment income	279,375	216,552	198,598	200,145
Realized capital gains (losses)	191,795	335,939	206,212	49,774
Revenues	1,217,648	1,159,026	981,951	859,042
Operating income	437,254*	341,022	288,101	283,024
Net income	587,663	676,961	494,313	332,798
Operating ratios; Loss ratio	57.0%	67.6%	78.3%	79.0%
Expense ratio	26.3	18.2	15.3	15.0
Combined ratio	83.3	85.8	93.6	94.0
Weighted average shares outstanding	94,785	86,314	91,328	103,438
Operating income per share	\$4.61*	\$3.95	\$3.15	\$2.74
Realized gains (losses) per share	\$2.02	\$3.89	\$2.26	\$0.48
Net income per share	\$6.20	\$7.84	\$5.41	\$3.22
Total investments	\$6,462,396	\$4,254,668	\$3,772,976	\$3,355,295
Total assets	10,108,650	6,088,462	5,031,538	4,721,466
Reserves for reported losses and lae	1,368,129	862,999	850,337	821,925
IBNR	1,753,610	1,479,255	1,248,759	1,098,575
Total reserves	3,121,739	2,342,254	2,099,096	1,920,500
Total liabilities	5,290,770	3,609,332	2,915,500	2,718,773
Shareholders' equity	4,817,880	2,479,130	2,116,038	2,006,133
Return on equity	17.9%	29.5%	24.0%	18.0%
Per share; Cash dividend	\$1.64	\$1.36	\$0.95	\$0.71
Book Value	42.79	\$29.37	\$24.27	\$21.22
Market price at November 30	75.13	\$61.50	\$38.88	\$31.19

* excludes amortization of intangible assets

1994	1993	1992	1991	1990	1989	1988
\$638,294	\$564,376	\$459,745	\$406,085	\$394,460	\$338,116	\$317,250
627,987	530,885	434,505	398,775	387,291	333,497	313,044
521,177	456,815	409,057	388,261	360,636	326,166	311,444
32,786	37,163	29,742	24,902	30,751	30,328	50,970
182,262	163,816	172,411	171,579	141,010	133,728	91,008
(95,197)	160,885	84,927	71,486	4,327	1,553	(6,622)
633,270	799,737	666,395	631,326	506,832	462,784	397,040
239,151	218,331	201,197	195,480	172,158	165,337	144,838
143,954	379,216	286,124	266,966	176,485	166,890	138,216
78.1%	77.3%	77.3%	77.4%	78.0%	72.4%	66.7%
15.6	14.6	15.4	16.2	13.5	18.3	16.4
93.7	91.9	92.7	93.6	91.5	90.7	83.1
108,676	111,226	114,158	110,556	108,012	108,042	108,300
\$2.20	\$1.96	\$1.76	\$1.77	\$1.59	\$1.53	\$1.34
(\$0.88)	\$1.45	\$0.75	\$0.65	\$0.06	\$0.05	(\$0.01)
\$1.32	\$3.41	\$2.51	\$2.42	\$1.65	\$1.58	\$1.33
\$2,943,712	\$3,040,012	\$2,639,648	\$2,489,412	\$1,878,868	\$1,614,333	\$1,218,150
3,853,152	3,626,996	3,067,328	2,731,134	2,199,303	1,918,413	1,355,978
690,580	551,201	331,629	184,444	180,680	100,782	363
974,854	808,500	837,374	772,900	618,542	515,829	380,743
1,665,434	1,359,701	1,169,003	957,344	799,222	616,611	381,106
2,168,759	1,783,902	1,440,016	1,364,938	1,100,899	979,775	621,315
1,684,393	1,843,094	1,627,312	1,366,196	1,098,404	938,638	734,663
8.2%	21.9%	19.1%	21.7%	17.3%	19.9%	20.9%
\$0.62	\$0.54	\$0.36	\$0.61	\$0.15	\$0.12	-
\$15.73	\$16.86	\$14.87	\$15.48	\$12.61	\$10.79	\$8.44
\$18.75	\$21.69	\$22.75	\$15.50	-	-	-

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 44 to 65 in this Annual Report.

(in thousands of U.S. dollars, except per share amounts and ratios)	1998	1997	1996	1995	1994
Income Statement Data:					
Gross premiums written	\$806,861	\$441,290	\$729,446	\$698,020	\$638,294
Net premiums written	672,044	316,626	597,102	694,337	627,987
Net premiums earned	685,200	540,653	517,892	558,049	521,177
Net investment income	279,375	216,552	198,598	200,145	182,262
Net realized gains (losses)	191,795	335,939	206,212	49,774	(95,197)
Equity in net income of affiliates	47,980	65,882	59,249	51,074	25,028
Losses and loss expenses	390,483	365,325	405,357	440,922	407,172
Acquisition costs and administration expenses	197,864	98,665	79,476	83,602	81,219
Interest expense	11,523	7,176	-	-	-
Amortization of intangible assets	23,926	5,844	-	-	-
Income before minority interest and income tax expense	593,852	682,016	497,118	334,518	144,879
Net income	587,663	676,961	494,313	332,798	143,954
Net income per share - basic (1)(2)	\$6.32	\$7.95	\$5.45	\$6.48	\$2.66
Net income per share - diluted (1)(2)	\$6.20	\$7.84	\$5.41	\$6.44	\$2.65
Weighted average shares					
Outstanding - basic (2)	92,975	85,120	90,734	51,326	54,088
Weighted average shares					
Outstanding - diluted (2)	94,785	86,314	91,328	51,648	54,338
Cash dividends per share (2)	\$1.64	\$1.36	\$0.95	\$0.71	\$0.62
Balance Sheet Data:					
Total investments	\$6,462,396	\$4,254,668	\$3,772,976	\$3,355,295	\$2,943,712
Cash and cash equivalents	443,654	394,599	252,734	673,433	456,176
Investment in affiliates	154,044	517,396	414,891	351,669	230,852
Total assets	10,108,650	6,088,462	5,031,538	4,721,466	3,853,152
Unpaid losses and loss expenses	3,121,739	2,342,254	2,099,096	1,920,500	1,665,434
Loans payable	301,000	141,000	11,000	-	-
Shareholders' equity	4,817,880	2,479,130	2,116,038	2,006,133	1,684,393
Book value per share (2)	\$43.09	\$29.37	\$24.27	\$21.22	\$15.73
Fully diluted book value per share (2)	\$42.79	\$29.33	\$24.21	\$21.11	\$15.73
Operating Ratios:					
Loss and loss expense ratio	57.0%	67.6%	78.3%	79.0%	78.1%
Underwriting expense ratio	26.3	18.2	15.3	15.0	15.6
Combined ratio	83.3	85.8	93.6	94.0	93.7

(1) Net income per share is based on the weighted average number of ordinary shares and ordinary share equivalents outstanding for each period as required by Statement of Financial Accounting Standard No. 128.

(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.

Results of Operations for the Years Ended November 30, 1998, 1997 and 1996

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 audited Consolidated Financial Statements and notes thereto presented on pages 44 to 65 in this Annual Report.

The following table presents an analysis of the Company’s revenues for the years ended November 30, 1998, 1997 and 1996 (U.S. dollars in thousands):

	1998	Change	1997	Change	1996
Net premiums earned	\$685,200	26.7%	\$540,653	4.4%	\$517,892
Net investment income	279,375	29.0%	216,552	9.0%	198,598
Net realized gains	191,795	NM	335,939	NM	206,212
Equity in net earnings of affiliates	47,980	(27.2)%	65,882	11.2%	59,249
Fee and other income	13,298	NM	-	NM	-
	\$1,217,648		\$1,159,026		\$981,951

Both net earned premiums and net investment increased significantly in 1998 over 1997, compared to the change from 1996 to 1997. These results were affected by the Company’s acquisition of GCR Holdings Limited (“GCR”) in June 1997 and the merger with Mid Ocean Limited (“Mid Ocean”) in August 1998. Accordingly, such growth may not be indicative for future periods.

Mid Ocean prior to the acquisition was an affiliate of the Company. Consequently, the equity in net earnings from affiliates only reflects the Company’s share of Mid Ocean’s earnings for the first nine months of 1998. Subsequent results for Mid Ocean are now consolidated.

The Company is effectively organized into three business operations: insurance, reinsurance and Lloyd’s Syndicates.

The insurance business is written primarily by XL Insurance Ltd (“XLI”), based in Bermuda and its subsidiaries, XL Europe Insurance (“XLE”), based in Dublin, Ireland, X.L. Insurance Company of America, Inc. (“XLIA”) and X.L. Risk Solutions, Inc. (“XLRS”), based in New York and Connecticut, respectively. The insurance operations are leading providers of high excess coverage for general third party liability, other liability, including directors and officers, professional and employment practices liability, property and other specialty covers.

The reinsurance business is written primarily by XL Mid Ocean Reinsurance Company Ltd

(“XLMORE”), based in Bermuda with branch operations in London and Singapore and an office in Munich. It also has controlling ownership of Latin American Reinsurance Company, Ltd. Mid Ocean Reinsurance Company, Ltd., (“Mid Ocean Re”), a subsidiary of Mid Ocean, was acquired by merger on August 7, 1998, and was amalgamated with X.L. Global Reinsurance Company, Ltd. (“XLGRe”). The reinsurance group is a leading writer of property catastrophe, other property, including property excess of loss and property pro rata, marine and energy, aviation and satellite and specialty liability and other covers.

The Lloyd’s operations are managed by The Brockbank Group plc (“Brockbank”) which provides underwriting and other services to five Lloyd’s syndicates, two of which are dedicated corporate syndicates whose capital is provided by the Company. These syndicates write property, marine and energy, aviation and satellite, professional indemnity, motor and other specialty lines primarily of insurance but also reinsurance, to a globally diverse group of clients. The Brockbank operations were acquired through the merger with Mid Ocean. The results of Brockbank are only included in the Company’s 1998 fourth quarter. Premiums written for the first nine months relate to the Company’s interest in Venton Holdings Limited (“Venton”). The Company’s interest in Venton was sold in the fourth quarter of the Company’s 1998 fiscal year.

Premiums (in thousands)	1998	1997	1996
Gross premiums written			
Insurance Operations			
General liability	\$185,081	\$252,790	\$432,002
Other liability	161,423	127,321	111,892
Property	35,567	38,261	40,691
Other	42,213	-	-
Reinsurance Operations			
Property catastrophe	89,084	(78,331)	64,130
Other property	29,014	17,069	2,111
Marine and energy	26,169	17,797	20,931
Aviation and satellite	37,602	37,470	13,433
Other	79,909	28,913	44,256
Lloyd's Syndicates	120,799	-	-
	806,861	441,290	729,446
Multi-year premiums	(26,433)	115,645	(164,033)
	\$780,428	\$556,935	\$565,413
Net premiums written			
Insurance Operations			
General liability	\$136,095	\$150,816	\$319,745
Other liability	152,491	116,230	101,818
Property	24,822	29,367	30,678
Other	36,875	-	-
Reinsurance Operations			
Property catastrophe	76,549	(78,940)	64,130
Other property	25,335	17,068	2,111
Marine and energy	24,714	17,797	20,931
Aviation and satellite	37,332	37,470	13,433
Other	75,029	26,818	44,256
Lloyd's Syndicates	82,802	-	-
	672,044	316,626	597,102
Multi-year premiums	(22,116)	122,762	(129,432)
	\$649,928	\$439,388	\$467,670
Net premiums earned			
Insurance Operations			
General liability	\$178,735	\$263,543	\$325,777
Other liability	95,166	91,364	80,427
Property	23,273	21,264	20,622
Other	5,124	-	-
Reinsurance Operations			
Property catastrophe	122,199	40,892	26,927
Other property	42,247	16,581	419
Marine and energy	31,068	20,420	21,536
Aviation and satellite	44,033	36,421	7,256
Other	70,478	50,168	34,928
Lloyd's Syndicates	72,877	-	-
	\$685,200	\$540,653	\$517,892

The growth in gross and net premiums written and net premiums earned have been affected by the Company’s acquisitions (as discussed previously), the development of new product lines and the ability to maintain a relatively high level of policy retention despite the highly competitive environment that the Company and its subsidiaries operate in.

The increase in gross premiums written of \$356.6 million in 1998 compared to 1997 was caused by several factors. The level of multi-year premiums written increased in 1998 compared to a decline in such business in 1997. The 1997 fiscal year was negatively affected by several multi-year property catastrophe contracts which were rewritten during the year resulting in the return of premiums written for future years that had not yet been collected or earned. This also resulted in a reduction of premiums receivable and unearned premiums.

Additionally, as previously mentioned, the growth in gross premiums written was affected by the acquisitions of GCR and Mid Ocean. The 1998 year includes a full year of GCR’s premiums compared to five and a half months in 1997, plus four months of Mid Ocean results and three months of Brockbank results. The GCR and Mid Ocean premiums are included under Reinsurance Operations and the Brockbank premiums are included under Lloyd’s Syndicates.

Property catastrophe premiums through the first nine months of 1998 reflect business assumed primarily by XLGRe prior to its amalgamation with Mid Ocean Re while premiums thereafter reflect the combined Mid Ocean Re and XLGRe. Other reinsurance represents specialty liability reinsurance related primarily to tailored programs written by XLI.

Premiums written by Lloyd’s Syndicates for the first nine months of the year, approximately \$25 million gross and \$7 million net, relate solely to the Company’s interest in Venton. As mentioned previously, Venton was sold in the fourth quarter of 1998. Accordingly, all results from Lloyd’s Syndicates from the fourth quarter of 1998 and forward are attributable to Brockbank.

Gross premiums written in 1998 and 1997

were also affected by a significant decline in premiums written for general liability insurance. The Company continues to experience high levels of competition, particularly on a price basis and coverage terms, although business retention has remained in excess of 80%. Policy retention for general liability insurance was 86.1% in 1998 compared to 80.1% in 1997 and 87.9% in 1996. The Company’s response has been to move generally to higher attachment levels which results in lower premiums as the Company moves further away from risk. As at November 30, 1998, the average limits for general liability insurance was \$84.4 million in excess of a \$135.2 million attachment point, as compared to average limits of \$86.4 million and \$80.2 million in excess of attachment points of \$104.0 million and \$78.7 million for the years ended November 30, 1997 and 1996, respectively.

Other liability insurance, (comprising mostly professional lines), increased significantly primarily as a result of several tailored multi-year programs written in the year. These transactions tend to be complex in nature and often take a significant period of time to structure, thus premiums written in any given year may not be representative of future years and may be irregular in nature.

The growth in net premiums written (gross premiums net of reinsurance ceded) in 1998 over 1997 was likewise affected by the above mentioned factors. In addition, Insurance Operations purchased a general liability excess of loss reinsurance contract for \$33.8 million at the beginning of the Company’s 1997 fourth quarter resulting in a reduction of net premiums written. Such reinsurance was extended to the Company’s year end and has been renewed for 1999. There was no equivalent reinsurance for 1996.

The increase in net premiums earned reflects the corresponding growth in gross and net premiums written. Unlike net premiums written, the timing differences created by the writing of multi-year premiums are smoothed as net premiums earned over the lives of the policies. Thus, net premiums earned may give a better indication of the trends in the Company’s underlying business.

Net Investment Income (in thousands)	1998	1997	1996
Net investment income	\$279,375	\$216,552	\$198,598

The increase in net investment income in 1998 over 1997 is due to a number of factors. The average asset base increased primarily due to the merger with Mid Ocean during the third quarter of 1998 and the

Company’s positive operational cash flow. In addition, the average yield of the portfolio was higher due to a widening of interest spreads and a decrease in the proportionate amount of equity

securities held as a percentage of the total investment portfolio.

Similarly, in 1997, the average asset base increased with the acquisition of GCR. Average

investment yields were also higher than 1996. The proportion of equity securities relative to the fixed income portfolio decreased marginally in 1997 compared to 1996.

Net Realized Investment Gains (in thousands)	1998	1997	1996
Net realized investment gains	\$191,795	\$335,939	\$206,212

Gains realized in 1998 reflected the strong performance of both the equity and certain sectors of the fixed income markets early in 1998, offset by dramatic price declines in the third quarter, followed by recoveries in the fourth quarter. Regarding the latter, generally declining interest rates and sector volatility have resulted in spreads widening in the corporate and mortgage markets, thereby providing the Company with opportunities to increase the yield on its investments despite the general decline in interest rates. Also, volatile markets may promote opportunities for the Company's investment managers to pursue their total return objectives with a goal of generating investment gains in the process.

The equity markets worldwide have remained strong but also have been subject to greater

volatility through the year. This resulted in \$136.7 million in gains being realized as some of the Company's equity managers locked in gains where they felt valuations had reached their targets. The Company also sold its minority investment in Venton during the fourth quarter, realizing a \$14.1 million gain.

During 1997, both the fixed income and equity portfolios were restructured, resulting in above normal turnover of the portfolio and contributing to the significant gains realized during the year. Market conditions were also very strong during 1997. The Company also maintains a synthetic equity portfolio holding S&P 500 Index futures that realized net gains of \$23.1 million and \$37.4 million for the years ended November 30, 1998 and 1997, respectively.

Equity in Net Income of Affiliates (in thousands)	1998	1997	1996
Equity in net income of affiliates	\$47,980	\$65,882	\$59,249

Equity in net income from affiliates was derived mostly from the Company's equity position in Mid Ocean, which ended in August 1998 upon the acquisition of the balance of the outstanding Mid Ocean shares. As a result, only nine months of earnings were accounted for on this basis in 1998, compared to a full year in 1997.

The increase in equity in net income of affiliates in 1997 over 1996 reflected an improvement in reported earnings of Mid Ocean plus contributions of \$3.9 million from the Company's equity positions in Risk Capital Holdings, Inc. and certain limited partnerships. No positive contributions were recorded from these affiliates in 1998.

Fee and Other Income (in thousands)	1998	1997	1996
Fee and other income	\$13,298	-	-

Approximately one half of all fee income represents net managing agency income for fees earned by Brockbank and are only for one reported quarter in 1998. These fees are received from management of Lloyd's syndicates, and profit commissions are earned under GAAP based upon estimated results of the syndicates managed. Profit commissions are settled and paid to the managing agent after an

underwriting year has been closed under Lloyd's rules, which is normally three years after its inception.

Of the remaining balance, \$2.2 million represents a fee to the Company's insurance operations for structuring a specialty insurance cover and \$3.6 million represents a distribution from one of its limited partnership investments.

Combined Ratio	1998	1997	1996
Loss and loss expense ratio	57.0%	67.6%	78.3%
Underwriting expense ratio	26.3%	18.2%	15.3%
Combined ratio	83.3%	85.8%	93.6%

The decrease in the loss ratio primarily reflects the diversification of the Company’s business over the past two years to include a lower proportion of liability business, which tends to be long-tail in nature. Loss ratios for this longer tail business can be higher but usually pay out claims over several years. The Company experienced lower losses in shorter tail lines resulting in an overall lower loss ratio. The decrease in the proportion of longer tail business will cause overall Company loss ratios to decrease in periods of low catastrophic activity. It should also be noted that the converse may also occur.

The 1998 year reflects a full year of the results of GCR acquired in June 1997 and four months of Mid Ocean Re acquired in August 1998. Most of the business written by these companies is short-tail in nature.

The 1998 loss ratio was also affected by the reduction of insurance reserves established for the Company’s professional lines to bring them in line with updated actuarially determined reserve estimates. The Company generally attempts to take a conservative stance with respect to initial reserves, particularly on new lines of business due to the limited loss development the Company would have experienced to date and the long-tail nature of certain lines of cover. In addition, reserves were reduced on specialty cover policies for the years 1995 through 1997 due to the absence of losses on these policies. These policies were for a three-year period, written on a claims made basis, and expired in 1998.

During the fourth quarter of 1998 the

Company incurred reinsurance losses of \$63 million relating to Hurricane Georges and the SwissAir airline disaster. These losses were offset in part by reserves accrued during the year that were transferred to the Company through its merger with Mid Ocean.

Prior to the acquisition of GCR, reinsurance business was not a significant component of the Company’s total book of business. As the relative proportion of this business increased, the loss ratio decreased for the reasons explained above resulting in a lower loss ratio in 1997 over 1996.

The increase in the expense ratio reflects the change in the Company’s business mix. The reinsurance and Lloyd’s Syndicate business typically have higher acquisition costs than the Company’s insurance business.

The underwriting expense ratio excludes interest costs, the amortization of intangible assets and one time charges totaling \$17.5 million associated with the realignment of the Company’s reinsurance systems and operations. XLGRe and Mid Ocean Re were amalgamated in August 1998, requiring the merging of data from two different underwriting systems to effectively monitor the spread of geographic and other risks. This also required the conversion of all the contracts on one system to the other. Duplicate office facilities were closed and their associated capitalized costs were expensed. The Company’s severance costs relating to redundant staff were expensed as well as certain professional expenses incurred in connection with the merger.

Net Income (in thousands except per share amounts)	1998	1997	1996
Income excluding net realized gains on investments, amortization of intangible assets and one time realignment charges	\$437,254	\$346,836	\$288,101
Net realized gains	191,795	335,939	206,212
Amortization of intangible assets	(23,926)	(5,844)	-
Alignment charges	(17,460)	-	-
Net income	\$587,663	\$676,961	\$494,313
Earnings per share - basic	\$6.32	\$7.95	\$5.45
Earnings per share - diluted	\$6.20	\$7.84	\$5.41

Net income for 1998 decreased over 1997 which had increased over 1996 primarily due to the amount of investment gains realized in 1997 compared to 1998 and 1996. The increase in income before realized gains and the other disclosed charges in 1998 and 1997 reflect the Company's acquisitions of Mid Ocean on August 7, 1998 and GCR on June 12, 1997. Earnings per share were also affected by the weighted average number of shares outstanding. On a diluted basis, these were 94,785,000 shares for 1998, 86,314,000 shares for 1997 and 91,328,000 for 1996. The decrease in the weighted average number of shares outstanding in 1997 reflects the repurchase of shares in 1996 and 1997. The increase in the number of shares for 1998 is primarily due to the issue of shares in exchange for Mid Ocean shares.

Financial Condition and Liquidity

As a holding company, the Company's assets consist primarily of its investments in the stock of its subsidiaries, and the Company's future cash flows depend on the availability of dividends or other statutorily permissible payments from its subsidiaries. The ability to pay such dividends is limited by the applicable laws, rules and regulations of Bermuda, the United States, the Republic of Ireland and the United Kingdom insurance law and regulations, including those promulgated by the Society of Lloyd's. In order to pay dividends, the amount of which is limited to accumulated net realized profits, XLI and XLMORE must maintain certain minimum levels of share capital, solvency and liquidity pursuant to Bermuda statutes and regulations. At November 30, 1998, XLI and XLMORE could have paid dividends in the amount of approximately \$1.8 billion and \$1.3 billion, respectively. Neither the Company nor any of its material subsidiaries other than XLI, XLMORE, XLIA and XLRS 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, 1998 was \$4.8 billion, of which \$2.4 billion was retained earnings.

At November 30, 1998, total investments and cash net of unsettled investment trades were \$6.4 billion compared to \$4.3 billion at November 30, 1997. The increase is due to the acquisition of cash and investments included in the merger with Mid Ocean, as well as the reinvestment of investment income and realized gains and the strengthening of the bond and equity markets during the year. However, as the Company's long-tail casualty insurance 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 investment will be reduced as compared to prior years due to potential increased claims payments. The Company's fixed income investments (including short-term investments and cash equivalents) at November 30, 1998 represented approximately 83% of invested assets and were managed by several outside investment managers with different strategies. Of the fixed income securities, 83% are of investment grade, with 58% rated Aa or AA or better by a nationally recognized rating agency. The average quality of the fixed income portfolio was AA-.

The payable for investments purchased has increased from \$382.3 million at November 30, 1997 to \$526.4 million at November 30, 1998. This increase results from timing differences as it is the Company's policy to account for its investments on a trade basis.

In fiscal 1996, 1997 and 1998, the total amount of losses paid by the Company was, \$302.6 million, \$267.2 million and \$366.5 million respectively.

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. The Company's reserving practices and the establishment of any particular reserve reflect management's judgement concerning sound financial practice and does not represent any admission of liability with respect to any claims made against the Company's subsidiaries. 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.

The Company commenced its initial stock repurchase program in September 1993 as authorized

by its Board of Directors and obtained approval for subsequent programs as each program was completed. On January 24, 1997, the Board of Directors authorized the Company to repurchase 3 million shares as circumstances warrant. As at November 30, 1997, the Company had purchased 595,000 shares at a cost of \$25.3 million. On March 13, 1998, the Board of Directors discontinued this program with 2.4 million shares remaining and replaced it with an authorization to repurchase \$500 million of its shares. Of this amount, \$300 million was used to repurchase 3.7 million shares related to the merger with Mid Ocean. In addition, the Company had purchased a further 732,000 shares at a cost of \$51.2 million during the year. On January 22, 1999, the Board of Directors discontinued this program with \$148.8 million remaining and replaced it with an authorization to repurchase \$500 million of its shares.

On June 11, 1997, subsidiaries of the Company obtained two revolving lines of credit each for \$250 million, one for 364 days and the other for 5 years. The one-year facility has been extended until June 1999. These facilities are provided by a syndicate of banks in order to facilitate strategic acquisitions and to supplement operational cash flow. The weighted average interest rate on the funds borrowed during 1998 was 5.667%. The balance of the loan outstanding under the facilities as at November 30, 1998 was \$190 million, which was extended for an additional three months at its due date on December 16, 1998. This amount represents the balance remaining of \$250 million that was borrowed to fund the cash election option available to shareholders in connection with the Mid Ocean merger.

Mid Ocean had obtained multi-currency committed lines of credit provided by a syndicate of banks which provides for unsecured borrowing up to an aggregate amount of \$200 million subject to certain conditions in August 1997. The Mid Ocean facility is split evenly between a 364-day and a 5-year facility. These facilities remained in place following the merger with Mid Ocean. In August 1998, \$50 million was borrowed from this facility and used by the Company in connection with the purchase of shares as part of the Mid Ocean merger. This was repaid in November 1998.

In 1998, X.L. America, Inc. ("XLA") obtained an unsecured revolving line of credit of \$100 million for 364 days from a U.S. bank. During the year, the full amount of this facility was borrowed and used to fund the Company's U.S. operations. This line of credit was replaced in December 1998 with a \$150 million commercial paper funding facility of which \$100 million has been drawn. XLI guarantees the

indebtedness of XLA under this facility.

On February 27, 1998, subsidiaries of the Company obtained a \$500 million letter of credit facility from a syndicate of banks, which is secured against the Company's investment portfolio. This facility is used to collateralize certain reinsureds' technical reserves with the Company. The Company has committed to letters of credit of approximately \$80.6 million as at November 30, 1998.

Mid Ocean had a \$325 million letter of credit facility with Citibank N.A., London branch, which is secured against its investment portfolio. Letters of credit totaling approximately \$223.0 million under this facility were outstanding as at November 30, 1998.

Year 2000 Considerations

The Company is exposed to risks associated with Year 2000 issues in terms of both the technology systems on which it depends and the underwriting exposures which it assumes.

In 1997, the Company initiated a project to address Year 2000 issues with respect to the Company's computer software and information technology systems as well as its non-information technology systems. The project has two distinct areas of focus - assessment of the Year 2000 compliance of the Company's software, systems and technology platforms, and the evaluation of the Year 2000 preparedness of significant third parties with whom the Company conducts business, including vendors and customers.

The Company has substantially completed its assessment of Company software and systems and has adopted a plan to implement compliant components, targeted to be substantially complete by June 1999. The Company estimates that through November 30, 1998 the remediation and validation efforts are approximately 50% complete, with the costs through such date aggregating approximately \$3 million. Future costs of remediation are not expected to have a material impact on the Company's financial position, results of operation or cash flows.

The Company recognizes the potential impact of Year 2000 issues from its service providers and customers. The Company is currently communicating with its significant service providers to assess their readiness and will address compliance risks with each new significant vendor. In addition, the Company's potential exposure to its customers' Year 2000 issues is being reviewed. Formal contingency plans will not be formulated until the Company has identified specific areas where there is a substantial risk of Year 2000 problems occurring, and no such

areas are identified as of this date.

All insurance and reinsurance subsidiaries of the Company examine the potential exposure of Year 2000-related risks associated with the coverages that they provide. In some instances, Year 2000-related risks are expressly excluded from or included in certain coverages, and in other instances, coverage in respect of such risks is neither expressly excluded nor included. To the extent that Year 2000-related risks materialize, participants in the property and casualty insurance and reinsurance industry, including the Company, could pay or incur significant claims, losses or defense costs which could have a material adverse effect on the Company's results of operations and financial condition. In view of the inherent uncertainties surrounding the likelihood that Year 2000-related risks will materialize and the extent to which such risks will result in insurance and reinsurance losses, it is not possible at this time to estimate the Company's potential exposure, if any, to claims associated with Year 2000-related issues.

Financial Risk Management

This risk management discussion and the estimated amounts generated from the sensitivity analyses 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 methods used by the Company to assess and mitigate risk should not be considered projections of future events or losses.

The Company's investment portfolio consists of fixed income and equity securities, denominated in both U.S. dollars and non-U.S. currencies. 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 4.6% or \$246 million on the Company's fixed income portfolio as of November 30, 1998.

The Company has short-term debt outstanding. Interest rates are LIBOR based. Accordingly, any changes in interest rates will affect interest expense. The Company only has positions on its five year facility. There are three and a half years remaining before this facility must be renewed.

In evaluating the impact of price changes of 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 Poor's) Index and the Morgan Stanley

EAFE (European Australia Far East) Index were used as proxies for U.S. and non-U.S. securities, respectively. Based upon one standard deviation, total return would be impacted by \$12 million. A 10% change in equity prices would affect total return by approximately \$113 million.

Foreign Currency Exposure Management

The Company uses foreign exchange contracts to manage its exposure to the effects of fluctuating foreign currencies on the value of its non-U.S. dollar fixed maturities and its non-U.S. dollar equity investments on an overlay basis. These contracts are not designated as specific hedges for financial reporting purposes 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. These contracts generally have maturities of three months or less. In addition, where the Company's investment managers are of the opinion that potential gains exist in a particular currency, a forward contract will not be entered into. At November 30, 1998, forward foreign exchange contracts with notional principal amounts totaling \$322.3 million were outstanding. The fair value of these contracts as at November 30, 1998, was \$308.4 million with unrealized losses of \$13.9 million. Gains of \$3.8 million were realized during the year. Based on this value, a 10% appreciation or depreciation of the U.S. dollar as compared to the level of other currencies under contract at November 30, 1998 would have resulted in approximately \$11.2 million in unrealized gains and \$33.2 million in unrealized 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 for financial reporting purposes, and generally have maturities of 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, 1998, the Company had \$2.4 million of such contracts outstanding, and had recognized a total of \$0.4 million in realized and unrealized losses for the twelve month period. Based on this value, a 10% appreciation or depreciation of the U.S. dollar as compared to the level of the other currencies under contract at November 30, 1998, would have had no material effect on income.

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, 1998, the Company had, as hedges, foreign exchange contracts for the sale of \$17.5 million and the purchase of \$0.1 million of foreign currencies at fixed rates, primarily New Zealand Dollars (73% of net contract value), Danish Kroner (14%) and Swedish Kroner (13%). The market value of non-U.S. dollar fixed maturities held by the Company as at November 30, 1998 was \$19.0 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, 1998, unrealized deferred losses amounted to \$0.1 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, 1998, realized deferred losses amounted to \$2.0 million.

In January 1999, eleven Member States of the European Union ("EU") began their participation in the EU's Economic and Monetary Union pursuant to which participating Member States' currencies were converted into the Euro, the common currency for the EU. The Company is uncertain as to the impact of the conversion on its business and financial condition and the Company has not yet initiated a detailed analysis and plan with respect to the Euro. Although the Company does not anticipate the costs associated with the conversion to be material, such costs are not known with precision at this time.

Financial Market Exposure

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, 1998, the portfolio held \$138.3 million in exposure to S&P 500 Index futures together with fixed maturities, short-term investments and cash amounting to \$139.5 million. Based on this value, a 10% increase or decrease in the price of these futures would have resulted in a total value, or exposure, of \$152.2 million and \$124.5 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, 1998, net realized gains from index

futures totaled \$25.8 million as a result of the 21.5% 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, 1998, bond and stock index futures outstanding were \$333.4 million, with underlying investments having a market value of \$2.1 billion (all portfolio managers are prohibited by the Company's investment guidelines from leveraging their positions). A 10% appreciation or depreciation of these derivative instruments at this time would have resulted in unrealized gains and losses of \$33.3 million, respectively.

Accounting Standards

The Financial Accounting Standards Board ("FASB") issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", effective for fiscal years beginning after December 15, 1997. This statement established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also established standards for related disclosures about products and services, geographical 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 assessed the effect of the adoption of this accounting standard on its consolidated financial statement disclosures.

FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Post-retirement Benefits", effective for fiscal years beginning after December 15, 1997. This Statement revises employers' disclosures about pensions and other post-retirement benefit plans. This standard is expected to have a minimal impact on the Company's consolidated financial disclosures.

FASB also issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective for all fiscal quarters of fiscal years beginning after June 15, 1999. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain

conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. The Company has not yet assessed the effect of the adoption of this accounting standard on its consolidated financial statement disclosures. SFAS No. 131 and No. 133 are not expected to have a significant impact on the Company's overall results but will affect the Company's financial statements and disclosures.

Current Outlook

The Company believes competition in the property and casualty insurance and reinsurance industry will continue to be strong and may intensify in 1999, exerting pressure on rates in general across virtually all property and casualty product lines. Although the Company believes some opportunities will exist in 1999 for growth in certain product lines, no assurances can be made that growth in such product lines will be sufficient to offset the competitive pressures affecting the Company's other product lines.

Cautionary Not Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 ("PSLRA") provides a "safe harbor" for forward-looking statements. The Company's Annual Report to Stockholders, any proxy statement, any Form 10-K, Form 10-Q or Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements which reflect the Company's current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to the Company and the insurance and reinsurance sectors in general (both as to underwriting and investment matters). Statements which include the words "expect", "intend", "plan", "believe", "project", "anticipate", "will" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the PSLRA.

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 factors include, but are not limited to, the following: (i) ineffectiveness or obsolescence of the Company's business strategy due

to changes in current or future market conditions; (ii) increased competition on the basis of pricing, capacity, coverage terms or other factors, (iii) greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than the Company's underwriting, reserving or investment practices anticipate based on historical experience or industry data; (v) developments in the world's financial and capital markets which adversely affect the performance of the Company's investments; (vi) changes in regulation or tax laws applicable to the Company, its subsidiaries, brokers or customers, (vii) acceptance of the Company's products and services, including new products and services; (viii) changes in the availability, cost or quality of reinsurance; (ix) changes in the distribution or placement risks due to increased consolidation of insurance and reinsurance brokers; (x) the impact of Year 2000-related issues on the Company's technology systems and underwriting exposures; (xi) loss of key personnel; (xii) the effects of mergers, acquisitions and divestitures; (xiii) changes in rating agency policies or practices; (xiv) changes in accounting policies or practices; and (xv) changes in general economic conditions, including inflation, foreign currency exchange rates, the introduction of the Euro and other factors. The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein or elsewhere. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

Report of Management's Responsibilities

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

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

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

The Audit Committee of the Board of Directors comprises solely of independent directors and meets regularly with the management of PricewaterhouseCoopers to review the scope and result of the audit work performed. PricewaterhouseCoopers 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. O'Hara
President & Chief Executive Officer



Robert R. Lusardi
Executive President & Chief Financial officer

To the Board of Directors and Shareholders of XL Capital Ltd

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of XL Capital Ltd and its subsidiaries at November 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 1998, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America which 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, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
New York, New York
December 23, 1998

Consolidated Balance Sheets

AS AT NOVEMBER 30, 1998 AND 1997 (Expressed in thousands of U.S. dollars)

	1998	1997
Assets		
Investments available for sale:		
Fixed maturities, at fair value (amortized cost:		
1998 – \$5,197,246; 1997 – \$3,144,642)	\$5,212,581	\$3,196,872
Equity securities, at fair value		
(cost: 1998 – \$995,873; 1997 – \$729,888)	1,128,601	837,827
Short-term investments, at fair value (amortized cost:		
1998 – \$121,177; 1997 – \$220,138)	121,214	219,969
Total investments - available for sale	6,462,396	4,254,668
Cash and cash equivalents	443,654	394,599
Investment in affiliates (cost: 1998 – \$140,201; 1997 – \$336,680)	154,044	517,396
Other investments	41,369	27,244
Accrued investment income	59,699	48,576
Deferred acquisition costs	97,951	22,272
Prepaid reinsurance premiums	141,385	108,916
Premiums receivable	689,516	254,238
Reinsurance balances receivable	388,954	156,025
Intangible assets	1,500,404	267,695
Other assets	129,278	36,833
Total assets	\$10,108,650	\$6,088,462
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss expenses	\$3,121,739	\$2,342,254
Unearned premiums	1,010,907	566,911
Premiums received in advance	19,167	40,706
Accounts payable and accrued liabilities	143,529	40,923
Reinsurance premiums payable	121,291	69,305
Loans payable	301,000	141,000
Net payable for investments purchased	526,357	382,345
Minority interest	46,780	25,888
Total liabilities	\$5,290,770	\$3,609,332
Shareholders' Equity:		
Class A ordinary shares (par value \$0.01; authorized, 999,990,000 shares including		
Class B shares; issued and outstanding, 108,688,081 shares and 84,407,638		
shares at November 30, 1998 and 1997, respectively)	1,087	844
Class B ordinary shares (par value \$0.01; authorized, 999,990,000 shares		
including Class A shares; issued and outstanding, 3,115,873 shares and		
nil shares at November 30, 1998 and 1997, respectively)	31	-
Contributed surplus	2,289,456	290,085
Net unrealized appreciation on investments	159,953	188,444
Deferred compensation	(18,104)	(11,362)
Retained earnings	2,385,457	2,011,119
Total shareholders' equity	\$4,817,880	\$2,479,130
Total liabilities and shareholders' equity	\$10,108,650	\$6,088,462

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Income

FOR THE YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996 (Expressed in thousands of U.S. dollars, except per share amounts)			
	1998	1997	1996
Revenues:			
Net premiums earned	\$685,200	\$540,653	\$517,892
Net investment income	279,375	216,552	198,598
Net realized gains on sales of investments	191,795	335,939	206,212
Equity in net income of affiliates	47,980	65,882	59,249
Fee and other income	13,298	-	-
Total revenues	1,217,648	1,159,026	981,951
Expenses:			
Losses and loss expenses	390,483	365,325	405,357
Acquisition costs	88,596	46,108	35,556
Administration expenses	109,268	52,557	43,920
Interest expense	11,523	7,176	-
Amortization of intangible assets	23,926	5,844	-
Total expenses	623,796	477,010	484,833
Income before minority interest and income tax expense	593,852	682,016	497,118
Minority interest in net income of subsidiary	826	(30)	-
Income tax expense	5,363	5,085	2,805
Net income	\$587,663	\$676,961	\$494,313
Weighted average ordinary shares and ordinary share equivalents outstanding - basic	92,975	85,120	90,734
Weighted average ordinary shares and ordinary share equivalents outstanding - diluted	94,785	86,314	91,328
Earnings per ordinary share and ordinary share equivalent - basic	\$6.32	\$7.95	\$5.45
Earnings per ordinary share and ordinary share equivalent - diluted	\$6.20	\$7.84	\$5.41

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity and Comprehensive Income

FOR THE YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996 (Expressed in thousands of U.S. dollars)

	1998	1997	1996
Ordinary Shares:			
Balance - beginning of year	\$844	\$872	\$473
Issue of shares	12	3	1
Issue of shares - Mid Ocean acquisition	303	-	-
Stock dividend	-	-	441
Exercise of stock options	3	3	4
Repurchase of treasury shares	(44)	(34)	(47)
Balance - end of year	1,118	844	872
Contributed Surplus:			
Balance - beginning of year	290,085	282,980	295,209
Issue of shares	88,959	10,771	7,493
Issue of shares - Mid Ocean acquisition	2,189,414	-	-
Exercise of stock options	9,147	6,277	6,045
Repurchase of treasury shares	(288,149)	(9,943)	(25,767)
Balance - end of year	2,289,456	290,085	282,980
Net Unrealized Appreciation (Depreciation) on Investments:			
Balance - beginning of year	188,444	256,430	283,289
Net change in investment portfolio	(24,194)	(82,521)	(26,621)
Net change in investment portfolio of affiliate	(4,297)	14,535	(238)
Balance - end of year	159,953	188,444	256,430
Deferred Compensation:			
Balance - beginning of year	(11,362)	(4,169)	(1,657)
Issue of restricted shares	(11,103)	(10,387)	(3,799)
Amortization	4,361	3,194	1,287
Balance - end of year	(18,104)	(11,362)	(4,169)
Retained Earnings:			
Balance - beginning of year	2,011,119	1,579,925	1,428,819
Net income	587,663	676,961	494,313
Cash dividends paid	(150,294)	(115,372)	(86,586)
Repurchase of treasury shares	(63,031)	(130,395)	(256,621)
Balance - end of year	2,385,457	2,011,119	1,579,925
Total shareholders' equity	\$4,817,880	\$2,479,130	\$2,116,038
Comprehensive Income:			
Net income	587,663	676,961	494,313
Change in net unrealized appreciation (depreciation) of investments	(28,491)	(67,986)	(26,859)
Comprehensive income	\$559,172	\$608,975	\$467,454

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996 (Expressed in thousands of U.S. dollars)			
	1998	1997	1996
Cash flows provided by operating activities:			
Net income before minority interest	\$588,489	\$676,931	\$494,313
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized gains on sales of investments	(191,795)	(335,939)	(206,212)
Amortization of (discounts) premium on fixed maturities	(12,953)	(2,163)	7,021
Equity in net income of affiliates net of cash received	(23,585)	(34,395)	(44,329)
Amortization of deferred compensation	4,361	3,194	1,287
Amortization of intangible assets	23,926	5,844	-
Unpaid losses and loss expenses	179,075	208,565	178,596
Reinsurance balances receivable	(144,910)	(109,581)	(45,442)
Unearned premiums	(16,751)	(178,584)	140,239
Prepaid reinsurance premiums	2,973	(45,449)	(61,029)
Premiums received in advance	(21,539)	16,450	19,376
Deferred acquisition costs	(3,818)	17,292	10,571
Premiums receivable	21,375	154,521	(111,054)
Reinsurance premiums payable	761	37,958	30,524
Accrued investment income	10,691	10,729	(2,580)
Accounts payable and accrued liabilities	15,570	2,839	11,188
Total adjustments	(156,619)	(248,719)	(71,844)
Net cash provided by operating activities	436,870	428,242	422,469

See accompanying notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows *(continued)*

FOR THE YEARS ENDED NOVEMBER 30, 1998, 1997 AND 1996 (Expressed in thousands of U.S. dollars)

	1998	1997	1996
Cash flow used in investing activities:			
Proceeds from sale of fixed maturities and short-term investments	13,709,343	10,332,277	4,283,613
Proceeds from redemption of fixed maturities and short-term investments	530,415	108,220	119,706
Proceeds from sale of equity securities	850,748	1,164,483	591,366
Purchases of fixed maturities and short-term investments	(14,313,067)	(10,078,481)	(5,059,795)
Purchases of equity securities	(964,214)	(999,384)	(374,565)
Deferred gains on forward contracts	(12,295)	7,049	418
Investments in affiliates	(1,126)	(43,184)	(19,131)
Purchase of GCR Holdings Limited	-	(660,137)	-
Cash acquired in purchase of Mid Ocean Limited	137,483	-	-
Other investments	1,836	154	(13,736)
Other assets	(8,537)	(24,185)	(20,208)
Net cash used in investing activities	(69,414)	(193,188)	(492,332)
Cash flows used in financing activities:			
Issuance of restricted shares	514	387	695
Proceeds from exercise of share options	7,538	6,280	6,049
Repurchase of treasury shares	(351,225)	(140,372)	(282,435)
Dividends paid	(150,294)	(115,372)	(86,145)
Proceeds from loans	1,235,000	620,000	11,000
Repayment of loans	(1,075,000)	(490,000)	-
Minority interest	20,066	25,918	-
Net cash used in financing activities	(313,401)	(93,159)	(350,836)
Increase (decrease) in cash and cash equivalents	49,055	141,865	(420,699)
Cash and cash equivalents - beginning of year	394,599	252,734	673,433
Cash and cash equivalents - end of year	\$443,654	\$394,599	\$252,734
Taxes paid	\$9,207	\$2,622	\$1,571
Interest paid	\$11,443	\$5,824	\$ -

See accompanying notes to Consolidated Financial Statements

1. Organization

XL Capital Ltd (“XL” or the “Company”) is a holding company organized under the laws of the Cayman Islands. XL was incorporated on March 16, 1998 as the successor to EXEL Limited, a Cayman Islands corporation organized in 1986 (“EXEL”), in connection with EXEL’s merger with Mid Ocean Limited, a Cayman Islands corporation (“Mid Ocean”). In the merger, which was completed on August 7, 1998, all of the shares of EXEL and Mid Ocean were exchanged for shares in the Company pursuant to two schemes of arrangement approved by the Grand Court of the Cayman Islands in accordance with Section 85 of the Companies Law (1995 Revision) of the Cayman Islands. The Company operated under the name “EXEL Limited” from completion of the merger until February 1, 1999, when its current name was approved by the requisite vote of the Company’s shareholders. References herein to “XL” or the “Company” also shall include EXEL unless the context otherwise requires. Through its subsidiaries, the Company is a leading provider of insurance and reinsurance, including coverages relating to certain financial risks, to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis.

XL Insurance Ltd, an insurance company organized under the laws of Bermuda (“XLI”), and its subsidiaries are the Company’s principal insurance subsidiaries. XLI was formed in 1986 in response to a shortage of high excess liability coverage for Fortune 500 companies in the United States. In 1990, XLI formed X.L. Europe Insurance, an insurance company organized under the laws of the Republic of Ireland (“XLE”), to serve European clients. In 1998, XLI acquired Folksamerica General Insurance Company, (renamed X. L. Insurance Company of America, Inc.) an insurance company domiciled in the State of New York and possessing property and casualty insurance licenses in approximately 20 states and reinsurance licenses in approximately 14 states, and formed X.L. Risk Solutions, Inc., an insurance company domiciled in the State of Connecticut. XLI also has a representative office in Australia.

The Company’s reinsurance operations are conducted primarily through XL Mid Ocean Reinsurance Ltd, an insurance company organized under the laws of Bermuda (“XLMORE”), and its subsidiaries. On August 7, 1998, XLMORE was formed through the merger of X.L. Global Reinsurance Company, Ltd. (“XLGRe”) and Mid Ocean Reinsurance Company Ltd. (“MORE”). XLGRe was formed in November 1997 through the merger of

X.L. Reinsurance Company, Ltd. (“XLRe”) and Global Capital Reinsurance Company Limited (“GCR”) following EXEL’s acquisition of GCR Holdings Limited, a Cayman Islands holding company, on June 12, 1997. XLRe commenced operations on December 1, 1995 to write specialty reinsurance business. MORE and GCR were organized in 1992 and 1993, respectively, initially to write property catastrophe reinsurance following severe hurricanes which struck the southeastern United States in the late 1980’s and early 1990’s. Each of XLRe, MORE and GCR was organized as an insurance company under the laws of Bermuda. XLMORE maintains branches in London, Singapore and a European contact office in Munich.

The Company’s operations at Lloyd’s are conducted through The Brockbank Group plc, a company organized under the laws of England, and its subsidiaries (together, “Brockbank”). Brockbank is a leading Lloyd’s managing agency which manages five Lloyd’s syndicates, two of which are dedicated corporate syndicates (“corporate syndicates”) whose capital is provided solely by the Company and its subsidiaries. Mid Ocean acquired 51% of Brockbank in December 1995 and the remaining 49% in August 1997. The two corporate syndicates, which commenced operations with effect from January 1, 1996, underwrite property, marine and energy, aviation, satellite, professional indemnity, U.K. motor and other specialty lines of insurance and reinsurance to a global client base. In 1998, the aggregate premium limit of the two corporate syndicates was approximately \$340 million, and the total capacity under management by Brockbank was approximately \$900 million. As a managing agency, Brockbank receives fees and commissions in respect of the underwriting services it provides to syndicates.

In October 1998, the Company sold its 21% interest in Venton Holdings Limited, a Bermuda holding company for the Venton managing agency group at Lloyd’s (together, the “Venton Group”). Prior to the sale, subsidiaries of the Company provided reinsurance coverage to the Venton Group, which writes principally professional indemnity, directors and officers liability and fiduciary liability insurance coverages.

The Company participates in several joint ventures of strategic importance. In general, the Company has pursued a strategy of entering into joint ventures with organizations which possess expertise in lines of business that the Company wishes to enter. The Company’s principal joint ventures are in the areas of financial guaranty insurance, life insurance

for high net worth individuals, Latin American reinsurance, political risk insurance and currency overlay and related risk management.

In November 1998, the Company entered into a joint venture with Financial Security Assurance Holdings Ltd., a New York corporation (“FSA”), to write certain types of financial guaranty insurance and reinsurance. FSA, through its subsidiaries, is primarily engaged in the business of providing financial guaranty insurance on asset-backed and municipal obligations. Under the terms of the joint venture, each of the Company and FSA formed a Bermuda insurance company in which it was the majority shareholder and made a minority investment in the company formed by its co-venturer. The Company formed and maintains majority ownership of XL Financial Assurance Ltd. (“XLFA”). FSA formed and maintains majority ownership of Financial Security Assurance International Ltd. (“FSAI”). Each of XLFA and FSAI has a capitalization of approximately \$100 million. As part of the joint venture, the Company and FSA exchanged approximately \$80 million of each other’s stock, following which the Company owned approximately 6% of the issued and outstanding common stock of FSA.

In June 1998, the Company formed Reeve Court Insurance Ltd., an insurance company organized under the laws of Bermuda, as a joint venture with such company’s management for the purpose of providing life insurance to high net worth individuals. Reeve Court has a total capitalization of approximately \$100 million.

In October 1997, the Company and Risk

Capital Holdings, Inc., a Delaware corporation (“RCHI”) which holds all of the outstanding shares of Risk Capital Reinsurance Company, a Nebraska corporation (“RCRe”), organized LARC Holdings, Ltd., a Bermuda corporation (“LARC”), which holds all of the shares of Latin American Reinsurance Company, Ltd., a Bermuda insurance company (“LARE”). LARE has approximately \$100 million in shareholders’ equity and provides multi-line reinsurance to the Latin American reinsurance market, concentrating on short-tail, multi-peril property reinsurance and, to a lesser extent, casualty, marine, aviation and other lines of reinsurance on both a treaty and facultative basis. XLMORE owns approximately 75% of the outstanding shares of LARC. The Company indirectly owns approximately 28% of RCHI.

In March 1997, XLI became a founding shareholder along with RCHI and another insurance company of Sovereign Risk Insurance Ltd. (“Sovereign”), a Bermuda-based managing general agency formed to write selected political risk insurance coverages. The Company owns 40.5% of Sovereign.

In 1996, the Company acquired approximately 28% of Pareto Partners (“Pareto”), a firm which specializes in foreign currency overlay management and related services. At December 31, 1998, Pareto had approximately \$26 billion of assets under management. The Company works closely with Pareto to develop new products and ventures, including the F/XL foreign currency protection product offered by XLI.

2. Operations

a) Insurance

The Company, through its subsidiaries XLI, XLE, XLIA and XLRs, is a leading insurer and provides third party general liability insurance, directors and officers liability insurance, professional liability insurance, employment practices liability insurance and other liability insurance including property insurance, and other insurance covers, including political risk insurance and financial products. The liability insurance is written on an excess basis and the loss experience is characterized as low frequency and high severity. Property is written on a pro rata as well as an excess basis. Policies written on a pro rata basis can attach at much lower levels. As a result, loss experience can be higher frequency and lower severity.

The insurance subsidiaries have a quota share

reinsurance policy with several U.S. reinsurers, of which one is RCRe, covering general liability risks only. Under the terms of this reinsurance, the Company will cede either 20% or 25% of each risk depending upon the underlying limit written. 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 20% of the quota share. All the reinsurers are rated, of which the lowest as rated by S&P is BBB. Effective September 1, 1997, the insurance subsidiaries entered into an excess of loss casualty catastrophe reinsurance contract covering all general liability risks. Under the terms of

this policy, the Company is reinsured for \$80 million ultimate net loss each occurrence excess of a per occurrence retention, subject to an annual aggregate retention of \$110 million. The maximum amount recoverable from the reinsurers will be an annual aggregate of \$250 million. For the year ended November 30, 1998, 97.75% of this reinsurance has been placed with twenty-three 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.

Employment practices liability coverage is reinsured 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.

The Company cedes 25% of all property risks to a quota share reinsurance treaty purchased from several property reinsurers. GCR and MORE were both participants of this program. All property reinsurers are rated, of which the lowest as rated by S&P is A-.

XL Risk Solutions and CIGNA Risk Solutions are a coordinated initiative between XLI and CIGNA Property & Casualty ("CIGNA"). The product provides combined capacity for traditional casualty and property coverages provided by XLI 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. A quota share arrangement exists between XLI and CIGNA based on pre-agreed percentages by line of coverage for blended covers written through XL Risk Solutions. These percentages vary from 12.5% to 90%, but do not exceed XLI's normal capacity on individual lines of cover. XLI may underwrite an account 100% without CIGNA participation.

Sovereign issues subscription policies with XL and the other insurance company each assuming 50% of each policy written. The Company reinsures 10% of all risks assumed through Sovereign to RCR.

XLI also offers insurance and reinsurance solutions for complex financial risks. These include financial insurance and reinsurance, credit enhancement, swaps and other collateralized transactions for up to \$100 million in limits. While each of these are unique and are tailored for the specific needs of the insured, they are typically multi-year policies. Due to the nature of these types of policies, premium volume as well as profit margin can vary significantly from period to period. The Company has no formal

reinsurance coverage for these risks, but may cede a portion of some policies to third parties from time to time.

b) Reinsurance

The Company, through XLMORE, is a leading reinsurer writing property catastrophe, property excess of loss, property pro rata, marine and energy, aviation and satellite and various other reinsurance to insurers on a worldwide basis. XLMORE maintains branch offices in London and Singapore as well as a European contact office in Munich, Germany. The London branch underwrites marine and energy and aviation risks on a worldwide basis. The Singapore branch underwrites general reinsurance, treaty and facultative business.

A significant portion of XLMORE's business underwritten consists of large aggregate exposures to man-made and natural disasters and generally loss experience is characterized as low frequency and high severity. This may result in volatility in the Company's financial results. The Company endeavors to manage its exposures to catastrophic events by limiting the amount of its exposure in each geographic zone worldwide and requiring that its property catastrophe contracts provide for aggregate limits and varying attachment points.

In August 1998, XLMORE placed \$200 million of retrocessional property catastrophe cover in a combination reinsurance and capital markets swap transaction. The transaction was offered in two tranches and covered the upper layers, with a remote probability of attachment, of XLMORE's hurricane and earthquake exposure in the United States and its territories and possessions in the Caribbean. The risk securitization structure provides retrocessional cover in financial swap form, with claim recovery triggered by catastrophe losses actually incurred by XLMORE, rather than by a catastrophe index or industry size event.

LAR provides 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.

c) Lloyd's

The Company's wholly owned subsidiary, Brockbank, is a leading Lloyd's managing agency which manages five syndicates, two of which are dedicated corporate syndicates whose capital is solely provided by the Company. These corporate syndicates write property,

marine and energy, aviation and satellite, motor, professional indemnity and other specialty lines,

primarily of insurance but also reinsurance.

3. 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.

The comparative consolidated financial statements are those of EXEL, the Company's predecessor, as previously discussed in note 1.

Certain amounts in the financial statements for prior years have been reclassified to conform with the 1998 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 recorded in accordance with the terms of the underlying policies. Reinsurance premiums assumed are estimated based upon information received from ceding companies and any subsequent differences arising on such estimates are recorded in the period they are determined. Premiums 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) Reinsurance

In the normal course of business, the Company seeks to reduce the loss that may arise from events that could cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Reinsurance premiums ceded and the commissions recorded thereon are expensed and earned on a monthly pro rata basis over the period the reinsurance coverage is provided. For those reinsurance policies that provide coverage to the Company over the term of the underlying business, the premiums ceded and commissions recorded thereon are expensed and earned on a monthly pro rata basis over the estimated term of those policies. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

d) Investments

Investments are available for sale and are carried at fair value. The fair value of investments is based upon quoted market values where available or by

reference to broker or underwriter bid indications. 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 sales of investments are determined on the basis of average cost or amortized cost. Investment income is recognized when earned and includes interest and dividend income together with 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.

e) Foreign Currency Translation

The functional and reporting currency of the Company and its subsidiaries is U.S. dollars. Monetary assets and liabilities denominated 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, unless the foreign currency exposure is directly hedged as discussed in note 3 (d). Revenue and expense transactions are translated at the average exchange rates prevailing during the year.

f) Investments in Affiliates

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

g) Other Investments

The Company accounts for its other investments on a cost basis as it has no significant influence over these entities. Assets are written down to their realizable value where there is a permanent decrease in value. Income is recorded when received.

h) 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. The Company evaluates the recoverability of its intangible assets whenever changes in circumstances warrant. If it is determined that an impairment exists, the excess of the unamortized balance over the fair value of the intangible asset will be charged to earnings.

i) 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 ceding companies, 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.

j) 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.

k) Earnings per Ordinary Share and Ordinary Share Equivalent

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings

per Share". SFAS No. 128 replaced primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share is calculated by dividing net income by the weighted average number of ordinary shares outstanding for each period. Diluted earnings per share reflects the potential dilution that could occur if the securities to issue ordinary shares were exercised into ordinary shares. Prior years' earnings per share amounts have been restated to reflect this.

4. Investments

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

	Year ended November 30,		
	1998	1997	1996
Fixed maturities, short-term investments and cash and cash equivalents	\$285,797	\$220,859	\$200,711
Equity securities	13,248	14,516	11,752
Total investment income	299,045	235,375	212,463
Investment expenses	19,670	18,823	13,865
Net investment income	\$279,375	\$216,552	\$198,598

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

	Year ended November 30,		
	1998	1997	1996
Net realized gains (losses):			
Fixed maturities and short-term investments:			
Gross realized gains	\$420,918	\$177,331	\$103,830
Gross realized losses	(379,974)	(168,048)	(53,463)
Net realized gains	40,944	9,283	50,367
Equity securities:			
Gross realized gains	605,525	370,949	288,272
Gross realized losses	(468,811)	(44,293)	(132,427)
Net realized gains	136,714	326,656	155,845
Net realized gain on sale of investment in affiliate	14,137	-	-
Net realized gains on investments	191,795	335,939	206,212
Change in unrealized appreciation (depreciation):			
Fixed maturities and short-term investments	(38,762)	19,391	(58,654)
Equity securities	24,127	(108,961)	31,616
Deferred gains on forward contracts	(12,295)	7,049	418
Investment portfolio of affiliates	(1,561)	14,535	(239)
Net change in unrealized appreciation (depreciation) on investments	(28,491)	(67,986)	(26,859)
Total net realized and change in unrealized appreciation (depreciation) on investments	\$163,304	\$267,953	\$179,353

Notes to Consolidated Financial Statements

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):

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
November 30, 1998				
Fixed maturities:				
U.S. Government and Government agency	\$1,564,084	\$18,592	\$(1,823)	\$1,580,853
Corporate bonds	3,231,757	65,620	(68,023)	3,229,354
Non-U.S. Sovereign Government bonds	401,405	16,721	(15,752)	402,374
Total fixed maturities	\$5,197,246	\$100,933	\$(85,598)	\$5,212,581
Short-term investments:				
U.S. Government and Government agency	\$38,187	\$224	\$ -	\$38,411
Corporate bonds	66,329	62	(313)	66,078
Non-U.S. Sovereign Government bonds	16,661	255	(191)	16,725
Total short-term investments	\$121,177	\$541	\$(504)	\$121,214
Total equity securities	\$995,873	\$208,390	\$75,662	\$1,128,601

November 30, 1997

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
Total equity securities	\$729,888	\$154,177	\$(46,238)	\$837,827

The contractual maturities of fixed maturity securities as of November 30, 1998 and 1997 are shown below (U.S. dollars in thousands). Actual maturities may differ from

contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	November 30, 1998		November 30, 1997	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due after 1 through 5 years	\$2,006,607	\$2,005,998	\$966,598	\$967,571
Due after 5 through 10 years	1,104,581	1,111,435	785,625	799,996
Due after 10 through 15 years	331,643	344,149	237,296	236,691
Due after 15 years	948,102	936,709	776,202	808,729
Mortgage-backed investments	806,313	814,290	378,921	383,885
	\$5,197,246	\$5,212,581	\$3,144,642	\$3,196,872

5. Investment in Affiliates

The Company owned 27.9% of the issued shares of RCHI as at November 30, 1998 and 1997, respectively. Outstanding share warrants if exercised would dilute the Company's ownership to 22.1% as at November 30, 1998. RCHI commenced operations on November 6, 1995.

The Company owns 28% of Pareto Partners, a partnership engaged in the business of providing investment advisory and discretionary management services.

On November 3, 1998, XL and FSA formed Financial Security Assurance International Ltd. ("FSAI") under the laws of Bermuda. FSAI was capitalized with \$100 million, of which FSA and XL contributed 80% and 20% respectively. FSAI will focus on financial guaranty insurance and reinsurance opportunities. As of November 30, 1998,

no contracts were written.

The Company owned 29.1% of the issued voting shares and 24.8% of the total issued shares of Mid Ocean as at November 30, 1997. The Company accounted for its share of Mid Ocean's earnings to July 31, 1998 on an equity basis. Subsequent to this date, Mid Ocean was acquired by the Company (as previously discussed in note 1) and has been consolidated as a wholly owned subsidiary of XL.

In June 1997, XL acquired 21% of Venton from the Trident Partnership L.P., of which XL is a 10.7% limited partner. Venton manages three syndicates at Lloyd's of London which underwrite non-marine, marine and all main classes of business, respectively. On October 23, 1998, XL sold its investment in Venton to an unrelated third party for \$41.4 million cash, realizing a net gain of \$14.1 million.

6. Intangible Assets

Intangible assets comprises of goodwill arising primarily from the purchase of Mid Ocean. The purchase price amounted to \$2.2 billion of which \$900 million represented the fair value of its net assets not already owned by the Company with the balance

of \$1.3 billion representing goodwill which is being amortized over 40 years. The balance of the goodwill mostly relates to the GCR acquisition. This component of goodwill is being amortized over 20 years.

Notes to Consolidated Financial Statements

7. Losses and Loss Expenses

Unpaid losses and loss expenses comprise (U.S. dollars in thousands):

	Year ended November 30,		
	1998	1997	1996
Reserve for reported losses and loss expenses	\$1,368,129	\$862,999	\$803,893
Reserve for losses incurred but not reported	1,753,610	1,479,255	1,295,203
Unpaid losses and loss expenses	\$3,121,739	\$2,342,254	\$2,099,096
Losses and loss expenses incurred comprise (U.S. dollars in thousands):			
Loss and loss expense payments	\$366,475	\$267,226	\$302,642
Change in unpaid losses and loss expenses	182,426	206,220	158,670
Reinsurance recoveries	(158,418)	(108,121)	(55,955)
Losses and loss expenses incurred	\$390,483	\$365,325	\$405,357

Reconciliation of unpaid losses and loss expenses (U.S. dollars in thousands):

	Year ended November 30,		
	1998	1997	1996
Unpaid losses and loss expenses at beginning of period	\$2,342,254	\$2,099,096	\$1,920,500
Losses and loss expenses incurred in respect of losses occurring in:			
Current year	713,059	735,313	436,334
Prior years	(164,158)	(260,407)	14,465
Total (Net of reinsurance 1998: \$390,483 - 1997: \$365,325 - 1996: \$405,357)	548,901	474,906	450,799
Interest incurred on experience reserves	1,798	886	1,752
Loss reserves acquired	595,261	34,593	28,687
Losses and loss expenses paid in respect of losses occurring in:			
Current Year	167,409	34,055	3,177
Prior years	199,066	233,172	299,465
Total	366,475	267,227	302,642
Unpaid losses and loss expenses at end of period	\$3,121,739	\$2,342,254	\$2,099,096

The 1998 current year losses reflect the inclusion of the operations of Mid Ocean acquired on August 7, 1998. The results include four months of XLMORE and three months of Brockbank. These operations incurred \$169 million in gross losses for the reported period. These losses were largely attributable to Hurricane Georges and the SwissAir airline disaster. In addition, losses for Brockbank attach at the primary layers and therefore are more frequent in nature. These losses are also significantly reinsured.

Prior year incurred losses in 1998 were affected in part, by the release of insurance reserves

established for the Company’s professional lines. These reserves were reduced in accordance with actuarial estimates. In addition, reserves were released on specialty cover policies for the years 1995 through 1997 due to the absence of losses that would affect the Company’s layers. These policies were for a three-year period, written on a claims-made basis and expired in 1998.

The high level of the 1997 current year incurred losses was due to the fact that three new 1997 casualty indemnity reserves totaling \$145 million were established. Historically, such losses have not

emerged this quickly. Should actual loss activity prove to be different, these reserves will be adjusted accordingly.

The 1997 losses were offset by the release of \$260 million in reserves that related to prior years in accordance with actuarial estimates.

8. Commitments and Contingencies

a) Letters of Credit

In February, 1998, subsidiaries of the Company established a \$500 million letter of credit facility with a syndicate of commercial banks led by Mellon Bank N.A. Letters of credit issued under this facility are collateralized by pledged securities in XLI's fixed maturity investment portfolio. Letters of credit totaling approximately \$80.6 million and \$155.8 million were outstanding as at November 30, 1998 and 1997, respectively.

Mid Ocean had a \$325 million letter of credit facility with Citibank N.A., London branch. Letters of credit issued under this facility are collateralized by pledged securities in Mid Ocean's investment portfolio. This facility remains in place following the merger with Mid Ocean. Letters of credit totaling approximately \$223.0 million were outstanding as at November 30, 1998. This amount includes \$169.5 million in respect of the Lloyd's corporate syndicates which has been issued in lieu of paid in capital.

b) Financial Instruments with Off-Balance Sheet Risk

The Company invests in derivative instruments, such as foreign currency forward contracts, and futures for purposes other than trading. These derivative instruments are used for foreign currency exposure management and to obtain exposure to specific financial markets.

i) Foreign Currency Exposure Management

The Company uses foreign exchange contracts to manage its exposure to the effects of fluctuating foreign currencies on the value of its non-U.S. dollar fixed maturities and its non-U.S. dollar equity investments on an overlay basis. The fair value of the Company's non-U.S. dollar denominated investments as at November 30, 1998 and 1997 was \$535.3 million and \$566.1 million, respectively. These contracts are not designated as specific hedges for financial reporting purposes 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. These contracts generally have maturities of three months or less. 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, 1998, forward foreign exchange contracts with notional principal amounts totaling \$322.3 million were outstanding. The fair value of these contracts as at November 1998, was \$308.4 million with unrealized losses of \$13.9 million. Gains of \$3.8 million were realized during the year.

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 for financial reporting purposes, 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, 1998, the Company had \$2.4 million of such contracts outstanding, and had recognized a total of \$0.4 million in realized and unrealized losses for the year.

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, 1998, the Company had, as hedges, foreign contracts for the sale of \$17.5 million and the purchase of \$0.1 million of foreign currencies at fixed rates, primarily New Zealand dollars (73% of net contract value), Danish Kroner (14%) and Swedish Kroner (13%). The market value of non-U.S. dollar fixed maturities held by the Company as at November 30, 1998 was \$19.0 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, 1998, unrealized deferred gains amounted to \$0.1 million, and were offset by corresponding decreases in the U.S. 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, 1998, realized deferred losses amounted to \$2.0 million.

The Company is exposed to credit risk in the event of non-performance by the other parties to the forward 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.

ii) Financial Market Exposure

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, 1998, the portfolio held \$138.3 million in exposure to S&P 500 Index futures together with fixed maturities, short-term investments and cash amounting to \$139.5 million. The value of the futures is updated daily with the change recorded in income as a realized gain or loss. For the year ended November 30, 1998, net realized gains from index futures totaled \$25.8 million.

Derivative investments are also utilized to add value to the portfolio where market inefficiencies are believed to exist. At November 30, 1998, bond and stock index futures outstanding were \$333.4 million, with underlying investments having a market value of \$2.1 billion. All managers are prohibited by the Company's investment guidelines from leveraging their positions.

c) Concentrations of Credit Risk

The Company's investment portfolio is managed by external managers in accordance with guidelines that have been tailored to meet specific investment strategies, including standards of diversification

which limit the allowable holdings of any single issue. The Company did not have an aggregate investment in a single entity, other than the U.S. government, in excess of 10% of shareholders' equity at November 30, 1998.

d) 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 \$33.3 million and \$27.2 million as at November 30, 1998 and 1997, respectively, with commitments to invest a further \$138.7 million over the next ten years. The Company received income from its investments of \$3.6 million and \$4.3 million for the years ended November 30, 1998 and 1997, 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.

e) Properties

The Company rents space for its principal executive offices under leases which expire up to June, 2009. Total rent expense for the years ended November 30, 1998, 1997 and 1996 was approximately \$3.7 million, \$2.1 million and \$1.8 million, respectively. Future minimum rental commitments under existing leases are expected to be approximately \$4.0 million annually. In 1997 the Company acquired commercial real estate in Hamilton, Bermuda for the purpose of securing long-term office space to meet its anticipated needs. The Company is in the process of developing this property and constructing its worldwide headquarters. The total cost of the development, including the land, is expected to be approximately \$110.0 million, of which \$23.7 million has been spent to date. It is estimated that the development will be completed sometime in 2001. Upon completion of the headquarters project, it is expected that the Company's rental commitments will be reduced.

9. Credit Agreements

In 1997, subsidiaries of the Company obtained two unsecured revolving lines of credit of \$250 million each, one for 364 days (short-term) and the other for 5 years (long-term), from a syndicate of nine major international banks led by Mellon Bank N.A. During the year, a total of \$505.0 million was borrowed at a weighted average rate of 5.667%. Total interest expense and facility costs amounted to \$9.5 million and \$7.18 million for the years ended November 30, 1998 and 1997, respectively. As at November 30, 1998, the outstanding balance was \$190.0 million drawn under the long-term facility and is repayable within the next twelve months.

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 four years. During the year the weighted average interest rate charged on the loan was 6.02%. Total interest expense amounted to \$0.7 million and \$0.7 million for the years ended November 30, 1998 and 1997, respectively.

Mid Ocean had obtained multi-currency committed lines of credit provided by a syndicate of nine major international banks led by Chase Manhattan Bank, N.A. which provides for unsecured borrowing up to an aggregate amount of \$200

million subject to certain conditions. The Mid Ocean facility is split evenly between a 364-day and a 5-year facility. These facilities remained in place following the merger with Mid Ocean. In August 1998, \$50 million was borrowed from this facility and lent to XL in connection with the merger with Mid Ocean. This was repaid in November 1998. During this period the weighted average interest rate charged on the loan was 5.760% and the total interest expense amounted to \$0.7 million.

In 1998, XLA obtained an unsecured revolving line of credit of \$100 million for 364 days from Mellon Bank N.A. During the year the full amount of this facility was borrowed at a weighted average rate of 5.898%. Total interest expense and facility costs amounted to \$1.3 million for the year ended November 30, 1998. As at November 30, 1998, the outstanding balance was \$100.0 million and is repayable within the next twelve months. This line of credit was replaced in December 1998 with a \$150 million commercial paper funding facility provided by the same bank. XLI guarantees the indebtedness of XLA under this facility.

The credit agreements for all facilities contain various financial and non-financial covenants. The Company and its subsidiaries were in compliance with all covenants as at November 30, 1998.

10. Share Capital

a) Authorized and Issued

The authorized share capital is 999,990,000 ordinary shares, par value \$0.01 per share, divided into Class A and Class B ordinary shares. Holders of Class A shares are entitled to one vote for each share held while Class

B shares are not entitled to vote. In all other aspects, Class A and B shares rank pari passu.

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

	Year ended November 30,		
	1998	1997	1996
Balance - beginning of year	84,407.6	87,170.6	94,550.8
Exercise of options	307.2	342.5	600.9
Issuance of restricted shares	140.2	284.2	224.0
Repurchase of shares	(3,243.2)	(3,389.7)	(8,205.1)
Issuance of Class A shares	27,076.3	-	-
Issuance of Class B shares	3,115.9	-	-
Balance - end of year	111,804.0	84,407.6	87,170.6

The issuance of Class A shares was in exchange for Mid Ocean shares (26.0 million shares) and FSA shares (1.1 million shares). The issuance of Class B shares was in exchange for the Mid Ocean Class B and Class C shares.

b) Share Repurchases

The Board of Directors has authorized the repurchase of the Company’s ordinary shares through several buy back programs. During 1998 the Company repurchased 3.2 million shares at an aggregate cost of \$255.2 million. On March 13, 1998, the Board of Directors discontinued its existing share repurchase program and authorized a program for \$500 million of the Company’s ordinary shares. In August 1998, \$300 million of share repurchases related to the merger with Mid Ocean. In addition, the Company had purchased a further 732,000 shares at a cost of \$51.2 million during the year.

c) 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 totaled 131,936 shares, 274,300 shares and 120,500 shares in 1998, 1997 and 1996, 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. On December 3, 1997, 5,000 options were granted to each director. All options vest immediately on grant date. Effective April 11, 1997, all options granted to non-employee directors are granted under the 1991 Performance Incentive Program.

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 share units calculated by dividing 110% of the deferred payment by the market value of the Company’s stock at the beginning of the fiscal year. Directors also may elect to receive their annual retainer in the form of shares with a value equal to the amount of their annual fee. Shares issued under the plan totaled 2,737, 3,048 and 4,048 in 1998, 1997 and 1996, 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 5,531, 6,716 and 14,960 were provided for in 1998, 1997 and 1996 respectively.

d) SFAS 123 Pro Forma Disclosure

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standard No. 123, “Accounting for Stock-Based Compensation”. Had the Company adopted the accounting provisions of SFAS No. 123, compensation costs would have been determined based on the fair value of the stock option awards granted in 1998, 1997 and 1996, and net income and earnings per share would have been reduced to the pro forma amounts indicated as follows (U.S. dollars in thousands, except per share amounts):

	Year Ended November 30,		
	1998	1997	1996
Net income - as reported	\$587,663	\$676,961	\$494,313
Net income - pro forma	\$569,516	\$672,145	\$492,722
Basic earnings per share - as reported	\$6.32	\$7.95	\$5.45
Basic earnings per share - pro forma	\$6.13	\$7.90	\$5.43
Diluted earnings per share - as reported	\$6.20	\$7.84	\$5.41
Diluted earnings per share - pro forma	\$6.01	\$7.78	\$5.40

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:

	1998	1997	1996
Dividend yield	2.35%	2.64%	2.66%
Risk free interest rate	5.32%	5.37%	5.96%
Expected volatility	23.57%	18.49%	19.28%
Expected lives	10 years	10 years	10 years

The fair value of options granted was \$40.7 million, \$9.9 million and \$4.3 million for the years ended November 30, 1998, 1997 and 1996, respectively.

Total stock based compensation recognized in net income was \$4.4 million in 1998, \$3.2 million in 1997 and \$1.3 million in 1996.

e) Options

Following is a summary of stock options and related activity :

	1998		1997		1996	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding - beginning of year	2,772,697	\$28.04	2,112,148	\$21.69	2,228,582	\$16.37
Granted	1,090,700	\$66.53	1,006,990	\$37.53	487,400	\$31.60
Granted - Mid Ocean conversion	791,573	\$72.44	-	-	-	-
Exercised	(307,215)	\$29.78	(346,241)	\$18.07	(600,938)	\$9.21
Canceled	(4,666)	\$36.92	(200)	\$18.75	(2,896)	\$19.39
Outstanding - end of year	4,343,089	\$45.67	2,772,697	\$28.04	2,112,148	\$21.69
Options exercisable	2,461,042		1,335,798		1,180,482	
Options available for grant	2,707,180*		3,943,380*		2,775,670*	

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

f) Voting

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

g) Share Rights Plan

Rights to purchase Class A Ordinary Shares were distributed as dividend at the rate of one Right for each outstanding Class A Ordinary Share held of record as of the close of business on October 31, 1998. Each Right will entitle holders of XL Class A Ordinary Shares to buy one ordinary share at an exercise price of \$350.00. The Rights would be exercisable, and would detach from the Class A Ordinary Shares, only if a person or group were to acquire 20 percent or more of XL's outstanding Class A Ordinary Shares, or were to announce a tender or exchange offer that, if consummated, would result in a person or group beneficially owning 20 percent or more of XL's Class A Ordinary Shares. Upon a person or group without prior approval of the Board acquiring 20 percent or

more of XL's Class A Ordinary Shares, each Right would entitle the holder (other than such an acquiring person or group) to purchase XL Class A Ordinary Shares (or, in certain circumstances, Class A Ordinary Shares of the acquiring person) with a value of twice the Rights exercise price upon payment of the Rights exercise price. XL will be entitled to redeem the Rights at \$0.01 per Right at any time until the close of business on the tenth day after the Rights become exercisable. The Rights will expire at the close of business on September 30, 2008, and do not initially have a fair value. The Company has initially reserved 119,073,878 Class A Ordinary Shares being authorized and unissued for issuance upon exercise of the Rights.

11. Contributed Surplus

Under the laws of the Cayman Islands, the use of XL'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.

12. Premiums

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

	Year ended November 30,		
	1998	1997	1996
Gross premiums written - direct	\$505,263	\$418,372	\$584,585
Gross premiums written - assumed	301,598	22,918	144,861
Reinsurance premiums ceded	(134,817)	(124,664)	(132,344)
Net premiums written	672,044	316,626	597,102
Change in unearned and prepaid premiums	13,156	224,027	(79,210)
Net premiums earned	\$685,200	\$540,653	\$517,892

13. Reinsurance

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

The Company regularly monitors the financial condition of its reinsurers and believes there to be no material unrecoverable reinsurance.

14. Dividends

In 1998, four regular quarterly dividends were paid, three of \$0.40 per share to shareholders of record at February 6, April 16 and July 15, and one of \$0.44 per share to shareholders of record at September 28.

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.

15. Taxation

Under current Cayman Islands law, XL 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, and XL and its Bermuda subsidiaries are exempted until March 2016 from any such future taxes pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, and Amended Act 1987.

X.L. Investments (Barbados), Inc. 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%.

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

Brockbank and XLMORE's London branch office are subject to United Kingdom corporation taxes. Profits of XLMORE's Singapore branch office are subject to Singapore corporation taxes. The German subsidiary of XLMORE is subject to taxation in Germany. The Company's U.S. subsidiaries are subject to Federal, State and local corporate income taxes and other taxes applicable to U.S. corporations. The Company has no material deferred taxes.

16. Statutory Financial Data

The Company's ability to pay dividends is subject to certain regulatory restrictions on the payment of dividends by its subsidiaries. The Company relies primarily on cash dividends from XLI and XLMORE. The payment of such dividends is restricted by applicable law including Bermuda, the United States, the Republic of Ireland and United Kingdom insurance law and regulations, and those promulgated by the Society of Lloyd's.

Bermuda

Under The Insurance Act, 1978, (as amended by the Insurance Act Amendment 1995) amendments thereto and related regulations of Bermuda (the

"Act"), XLI and XLMORE 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. Other subsidiaries of the Company based in Bermuda, including XLFA, LARe and Reeve Court, are also subject to regulation under the Act.

XLI's and XLMORE's statutory capital and surplus, statutory net income and the minimum statutory capital and surplus required by the Act were as follows (U.S. dollars in thousands):

Year ended November 30,						
	1998	XLI		XLMORE		
		1997	1996	1998	1997	1996
Statutory capital and surplus	\$1,255,284	\$882,366	\$872,586	\$1,966,200	\$512,637	\$271,398
Statutory net income	\$309,244	\$189,281	\$367,322	\$108,290	\$57,995	\$21,398
Minimum statutory capital and surplus required by the Act	\$307,205	\$310,240	\$302,089	\$100,000	\$100,000	\$100,000

The primary difference between statutory net income and statutory capital and surplus for the Company's subsidiaries as shown above, and net income and shareholders' equity presented in accordance with generally accepted accounting principles are deferred acquisition costs.

Under the Act, XLI and XLMORe are classified as a Class 4 insurer and reinsurer, respectively. Therefore they are restricted to the payment of dividends in any one financial year of 25% of the prior year's statutory capital and surplus, unless their directors attest that such dividends will not cause the company to fail to meet its relevant margins. XLI and XLMORe have not been affected by this. XLI could legally have paid dividends in the amount of approximately \$1.8 billion, \$1.5 billion and \$1.1 billion at November 30, 1998, 1997 and 1996, respectively. XLMORe could legally have paid dividends in the amount of approximately \$1.3 billion, \$403.4 million and \$169.5 million at November 30, 1998, 1997 and 1996, respectively.

Republic of Ireland

XLE is permitted to cover risks throughout the European Community (subject to certain restrictions) pursuant to the "Third Directive" relating to non-life insurance. Its operations, however, are largely restricted to the Republic of Ireland and are subject to regulation under Irish regulatory authority. The principal legislation and regulations governing the insurance activities of Irish insurance companies are the Companies Act of 1963 to 1990 and a range of Irish Insurance Acts from 1909 through 1995 (the "Irish Acts"). In addition, there is 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) Framework Regulations 1994, the European Communities (Insurance Undertakings Accounts) Regulations, 1996 and a range of other European Communities Regulations and administrative rules (the "Irish Regulations").

XLE'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, Trade 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 Department of Enterprise, Trade and Employment.

United States

The Company's U.S. insurance subsidiaries are subject to regulatory oversight under the insurance statutes and regulations of the jurisdictions in which they conduct business. Brockbank, via Lloyd's, is a licensed insurer in the states of Illinois, Kentucky and the U.S. Virgin Islands ("USVI"). It is also an eligible surplus lines writer in all states other than Kentucky and USVI, and an accredited reinsurer in every state other than Michigan. Brockbank Insurance Services, Inc., is a California licensed surplus and special lines broker.

The insurance laws of each state of the United States and of many foreign countries regulate the sale of insurance within their jurisdictions by alien insurers, such as XLI and XLMORe. The Company believes it is not in violation of the insurance laws of any state in the U.S. or any foreign country. From time to time, various proposals for federal legislation within the United States have been circulated which could require the Company to, among other things, register as a surplus lines insurer. The Company believes that generally it could meet and comply with the requirements to be registered as a surplus lines insurer and such compliance would not have a material impact on the ability of the Company to conduct its business. There can be no assurance, however, that the activities of the Company will not be challenged in the future or that the Company will be able to successfully defend against such challenges or that legislation will not be enacted that will affect the Company's ability to conduct business.

United Kingdom

The United Kingdom Financial Services Authority ("UK FSA") regulates reinsurance entities that are "effecting and carrying on" insurance business in the United Kingdom. XLMORe, through its London branch, "effects and carries on" business in the United Kingdom and is therefore regulated by the UK FSA.

Lloyd's

As a result of the Company's ownership of Brockbank, the Company and Brockbank are subject to the regulatory jurisdiction of the Council of Lloyd's (the "Council"). Unlike other financial markets in the U.K., Lloyd's is not subject to direct U.K. government regulation through the Financial Services Act of 1986 but, instead, is self regulating by virtue of The Lloyd's Act of 1982 through bye-laws, regulations and codes of conduct written by the Council, which governs the market. Under the Council, there are two boards, the Market Board and the Regulatory Board. The former is led by working members of the Council and is responsible for strategy and the provision of services such as premium and claims handling, accounting and policy

signing. The Regulatory Board is responsible for the regulation of the market, compliance and the protection of policyholders. Under the regulations, the approval of the Council has to be obtained before any person can be a “major shareholder” or “controller” of a corporate Name or managing agency. The Company has been approved as both a “major shareholder” and a “controller” of its corporate Names (the “CCVs”) and managing agencies.

A person would be viewed by Lloyd’s as a “major shareholder” of the CCVs if such person owns 15% or more of the Company’s outstanding capital stock and as a “controller” if it owns 30% or more of the Company’s outstanding capital stock. Therefore, any person that becomes the owner of 15% or more of the Company’s stock may be required to deliver a declaration and undertaking to Lloyd’s, in the form prescribed by Lloyd’s, unless Lloyd’s exempts such person from this requirement.

As a “controller”, the Company is required to give certain undertakings, directed principally

towards ensuring that there is no direct interference in the conduct of the business of the relevant managing agency, but there are no provisions in The Lloyd’s Act of 1982, the bye-laws or the regulations which provide for any liabilities of the CCVs or the Brockbank group as a whole to be met by the Company. In addition, a managing agency is required to comply with various capital and solvency requirements, and to submit to regular monitoring and compliance procedures. The CCVs, as corporate members of Lloyd’s, are each required to commit a specified amount approximately equal to 50% of their underwriting capacity on the syndicates to support its underwriting on those syndicates.

The Lloyd’s Act of 1982 generally restricts certain direct or indirect equity cross-ownership between a Lloyd’s broker and a Lloyd’s managing agent.

Other Regulation

The Company is subject to regulation in Australia, Singapore and Germany as a result of its representative offices and branches in such jurisdictions.

17. Unaudited Quarterly Financial Data

The unaudited quarterly financial data for 1998 and 1997 follows (U.S. dollars in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998				
Net premiums earned	\$139,882	\$137,787	\$155,514	\$252,017
Net investment income	57,528	60,452	70,983	90,412
Realized gains (losses)	62,951	74,541	(2,837)	57,140
Equity in net income (loss) of affiliates	15,207	19,728	14,604	(1,559)
Fee and other income	-	4,145	2,132	7,021
Total revenues	\$275,568	\$296,653	\$240,396	\$405,031
Income before income tax expense	\$157,191	\$171,832	\$86,621	\$178,208
Net income	\$155,410	\$170,562	\$85,830	\$175,861
Net income per share and share equivalent - basic	\$1.84	\$2.02	\$0.94	\$1.58
Net income per share and share equivalent - diluted	\$1.81	\$1.98	\$0.91	\$1.56

1997

Net premiums earned	\$119,857	\$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 (loss) 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	\$211,580	\$207,438	\$152,055
Net income	\$108,118	\$211,580	\$206,560	\$150,703
Net income per share and share equivalent - basic	\$1.24	\$2.49	\$2.45	\$1.79
Net income per share and share equivalent - diluted	\$1.23	\$2.46	\$2.41	\$1.75

18. Accounting Standards

The Financial Accounting Standards Board (“FASB”) issued SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, effective for fiscal years beginning after December 15, 1997. This statement established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also established standards for related disclosures about products and services, geographical areas and major customers. Under SFAS No. 131, operating segments are to be determined consistent with the way that management organizes and evaluates financial information inter-

nally for making operating decisions and assessing performance. The Company has not yet assessed the affect of the adoption of this accounting standard on its consolidated financial statement disclosures.

FASB issued SFAS No. 132, “Employers’ Disclosures about Pensions and Other Post-retirement Benefits”, effective for fiscal years beginning after December 15, 1997. This Statement revises employers’ disclosures about pension and other post-retirement benefit plans. This standard is expected to have a minimal impact on the Company’s consolidated financial disclosures.

FASB also issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”,

effective for all fiscal quarters of fiscal years beginning after June 15, 1999. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in

fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. The Company has not yet assessed the affect of the adoption of this accounting standard on its consolidated financial statement disclosures.

SFAS No. 131 and No. 133 are not expected to have a significant impact on the Company's overall results but will affect the Company's financial statements and disclosures.

19. Unaudited Subsequent Events

On December 2, 1998, the Company announced that it had signed a definitive agreement to acquire all of the outstanding shares of Intercargo Corporation ("Intercargo") for \$12 per share, or approximately \$88 million. Intercargo, through its subsidiaries, underwrites specialty insurance products for companies engaged in international trade, including U.S. customs bonds and marine cargo insurance. At September 30, 1998, Intercargo had total assets of \$165 million and shareholders' equity of \$81 million. The transaction is subject to approval by Intercargo's shareholders, regulatory approvals and other customary closing conditions. There can be no assurance that the transaction will be completed or that the terms of the transaction will not be modified prior to completion.

On February 16, 1999, the Company announced that it had signed a definitive merger agreement with NAC Re Corporation ("NAC Re"). Under the terms of the agreement, shareholders of NAC Re will receive 0.915 XL Class A shares for each NAC Re share in a tax-free exchange of shares that will be accounted for as a pooling of interests under U.S. generally accepted accounting principles ("GAAP"). The transaction is subject to the approval of the NAC Re stockholders, expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, receipt of insurance, regulatory approvals and other customary closing conditions. There can be no assurance that the transaction will be completed or that the terms of the transaction will not be modified prior to completion.

Pro Forma Financial Information

On March 16, 1998, the combination of EXEL and Mid Ocean was announced. The shareholders of the two companies approved the two schemes of arrangement on August 3, 1998 and the Grand Court of Cayman approved the arrangements on August 7, 1998. The Company is the holding company for the new organization, and the reinsurance operations of both companies were combined on August 7, 1998. The transaction, detailed in the joint proxy statement filed with the Securities and Exchange Commission on July 2, 1998, resulted in XL issuing 1.0215 shares for

each Mid Ocean share (other than Mid Ocean shares held by EXEL and its subsidiaries), subject to the cash election rights of the two companies' shareholders described therein. Prior to this transaction, EXEL owned approximately 25% of Mid Ocean Class A shares.

As a result of the combination, the Company assumed assets of \$2.6 billion, of which invested amounts were \$1.8 billion, and liabilities of \$1.2 billion, including loss reserves of \$595 million.

Unaudited Pro Forma Condensed Consolidated Statements of Income

(U.S. dollars in thousands, except per share amounts)

	Pro Forma 1998	Pro Forma 1997
Net premiums earned	\$1,055,935	\$1,033,121
Net investment income	362,930	319,981
Net realized gains	225,534	335,538
Equity in affiliate income	(1,897)	3,748
Fee and other income	28,006	24,710
Total revenues	1,670,508	1,717,098
Losses and loss expenses	569,130	587,414
Acquisition costs and administration expenses	307,448	234,949
Interest expense	23,123	24,576
Amortization of intangible assets	45,000	37,192
Total expenses	944,701	884,131
Income before minority interest and income tax expense	725,807	832,967
Minority interest and income tax	12,703	18,500
Net income	\$713,104	\$814,467
Net income per share		
Basic	\$6.42	\$7.29
Diluted	\$6.31	\$7.20
Weighted average shares outstanding (000's)		
Basic	111,155	111,734
Diluted	112,964	113,133

This unaudited condensed pro forma financial information should be read in conjunction with the following explanatory notes.

1. Accounting for the Arrangements

- (a) The combination of EXEL and Mid Ocean was accounted for under purchase accounting rules, in accordance with generally accepted accounting practice, whereby the total purchase cost is allocated to the assets and liabilities acquired based on their relative values at the date of acquisition, and the excess of that total purchase cost over the fair values is recorded as goodwill. The fair values ascribed to the individual assets and liabilities are based upon management studies and appraisals.
- (b) Included in the pro forma income statements for the year ended November 30, 1998 and 1997 is the financial information of Mid Ocean for the nine months ended July 31, 1998 and the year ended October 31, 1997, respectively. No adjustments have been made to take account of these differing period ends as, in the opinion of management, any such adjustments would not be material.

2. Allocation of Purchase Price Consideration:

The allocation of the purchase price is as follows (U.S. dollars in thousands):

Fair value of assets of Mid Ocean at date of acquisition	1,360,760
Equity value of Mid Ocean assets already held	(377,214)
Fair value of share of net assets acquired by EXEL	983,546
Goodwill relating to acquisition	1,253,920
	2,237,466
The consideration for the arrangements was as follows:	
Issue of New EXEL shares	2,109,804
Issue of New EXEL options	26,800
Mid Ocean shares purchased for cash	85,607
Cost of acquisition	15,255
	2,237,466

Directors

Michael A. Butt	(4)	Former President & CEO, Mid Ocean Limited
Robert Clements	(2) (3)	Chairman, Risk Capital Holdings, Inc.
Sir F. Brian Corby	(1)	Chairman of the Board, The Brockbank Group plc & Former Chairman of the Board of Prudential Corporation plc
Michael P. Esposito	(3) (4)	Chairman, XL Capital Ltd
Robert R. Glauber	(4)	Lecturer, John F. Kennedy School of Government at Harvard University
Paul E. Jeanbart	(1)	Chief Executive Officer, The Rolaco Group of Companies
Ian R. Heap	(3)	Former Chairman, XL Capital Ltd
John Loudon	(3) (4)	Chairman, Caneminster Limited
Robert J. Newhouse, Jr.	(2)	Former Chairman of the Board, Mid Ocean Limited
Brian M. O'Hara	(3) (4)	President & Chief Executive Officer, XL Capital Ltd
Robert V. Hatcher	(2)	Retired Insurance Executive
Robert S. Parker	(3) (4)	Dean, School of Business Administration Georgetown University
Cyril E. Rance, MBE, JP	(1)	Retired Insurance Executive
Alan Z. Senter	(4)	Chairman, Senter Associates
John T. Thornton	(1) (4)	Executive Vice President & Financial Executive, Wells Fargo & Co.
Ellen E. Thrower	(1)	President, The College of Insurance
John W. Weiser	(2) (4)	Chairman, Graduate Theological Union (Berkeley)

Committees of the Board: (1) Audit (2) Compensation (3) Nominating and Corporate Governance (4) Finance

Senior Officers

XL Capital Ltd

Brian M. O'Hara	<i>President & Chief Executive Officer</i>
Mark E. Brockbank	<i>Executive Vice President</i>
K. Bruce Connell	<i>Executive Vice President</i>
Robert J. Cooney	<i>Executive Vice President</i>
Christopher V. Greetham	<i>Executive Vice President & Chief Investment Officer</i>
Henry C. V. Keeling	<i>Executive Vice President</i>
Robert R. Lusardi	<i>Executive Vice President & Chief Financial Officer</i>
Gavin R. Arton	<i>Senior Vice President, Investor Relations Officer & Corporate Planning Officer</i>
Paul S. Giordano	<i>Senior Vice President, General Counsel & Secretary</i>
Richard R. Morano	<i>Senior Vice President, Organizational Development</i>
William Robbie	<i>Senior Vice President, Treasurer</i>
Michael A. Siese	<i>Senior Vice President, Controller</i>

XL Mid Ocean Reinsurance Ltd

Brian M. O'Hara	<i>Chairman</i>
Hency C.V. Keeling	<i>President & Chief Executive Officer</i>
James H. Veghte	<i>Executive Vice President & Underwriter</i>
Robert L. Nason	<i>Executive Vice President & Underwriter</i>
William A. Robbie	<i>Executive Vice President, Chief Financial & Administrative Officer</i>
William G. Fanning	<i>Senior Vice President & Senior Actuary</i>
Stephen S. Outerbridge	<i>Senior Vice President, International Division</i>
Dr. Gerd Strecker	<i>Senior Vice President, Continental European Operations</i>
Guy H. Whitehead	<i>Senior Vice President & Senior Actuary</i>

The Brockbank Group, Plc

Mark E. Brockbank	<i>Chief Executive Officer & Executive Director</i>
Ken J. Acott	<i>Underwriter, Syndicates 253 and 2253</i>
Kevin J. Allen	<i>Chief Financial Officer & Executive Director</i>
Gilles A.M. Bonvarlet	<i>Managing Director, Brockbank Syndicate Management Ltd & Executive Director</i>
Henry A. Engelhardt	<i>Managing Director, Admiral Insurance Services Ltd</i>
James T. Gerry	<i>Executive Director, North America</i>
Alex J.R. MacKay	<i>Company Secretary</i>
Ian P. Martin	<i>Executive Director, U.K. Europe and North America</i>
Nicholas J. Metcalf	<i>Executive Director & Underwriter, Syndicate 588</i>
Martin R.D. Reith	<i>Executive Director & Underwriter, Syndicates 861 and 1209</i>
Charles R. Rudd	<i>President, Brockbank Insurance Services Inc.</i>

XL Insurance Ltd

Brian M. O'Hara	<i>Chairman</i>
Robert J. Cooney	<i>President & Chief Executive Officer</i>
Keith Fisher	<i>Executive Vice President & Chief Underwriting Officer</i>
R. Richard Hackenburg	<i>Executive Vice President, Customer Business Solutions</i>
Richard R. Morano	<i>Executive Vice President, Organizational Development</i>
Michael A. Siese	<i>Executive Vice President & Chief Financial Officer</i>
Richard Leone	<i>Senior Vice President</i>
Pamela Martin	<i>Senior Vice President</i>
Paul Miller	<i>Senior Vice President</i>
James J. Ansaldi	<i>Managing Director</i>
Paul Dowden	<i>Managing Director</i>
Philip Grierson	<i>Managing Director</i>
Angelo Guagliano	<i>Managing Director</i>
Robert Klepper	<i>Managing Director</i>
Lyle McCoy	<i>Managing Director</i>
James Miller	<i>Managing Director</i>

X.L. Europe Insurance

Brian M. O'Hara	<i>Chairman</i>
Dermot O'Donohue	<i>Chief Underwriting Officer</i>
J. Walker Rainey	<i>Chief Financial Officer</i>

X.L. America Inc.

Ian R. Heap	<i>President & Chief Executive Officer</i>
Elizabeth Eiss	<i>Executive Vice President</i>
William M. Thornhill	<i>Executive Vice President</i>
Robert Tausz	<i>Senior Vice President, Chief Financial Officer & Assistant Secretary</i>

XL Capital Products Ltd

K. Bruce Connell	<i>President & Chief Executive Officer</i>
John Boylan	<i>Managing Director, London Representative Officer</i>
David Kaplon	<i>Senior Vice President</i>
James McNichols	<i>Senior Vice President & Actuary</i>
Clive Tobin	<i>Senior Vice President</i>

Annual Meeting

The annual meeting of Shareholders of *XL Capital Ltd* will be held on Friday, April 9, 1999 at the Company's Head Office, Cumberland House, One Victoria Street, Hamilton, Bermuda at 8:30 a.m. local time.

Common Stock Data

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

The following table sets forth the high and low closing sales prices per share of the Company's Ordinary Shares, as reported on the New York Exchange Composite Tape for the four fiscal quarters of 1998 and 1997.

	1998		1997	
	High	Low	High	Low
	\$	\$	\$	\$
First Quarter	66.688	59.063	45.000	36.500
Second Quarter	80.813	66.938	44.500	39.000
Third Quarter	80.250	66.813	57.500	44.500
Fourth Quarter	77.688	62.125	64.000	55.063

As of November 1998, the approximate number of record holders of Ordinary Shares was 353.

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, XL Capital Ltd, P.O. Box HM 2245, Hamilton HM JX, Bermuda.

Auditors

PriceWaterhouseCoopers LLP, 1301 Avenue of the Americas, New York, New York 10019-6013, U.S.A.

Legal Counsel

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

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